Western AREA POWER ADMINISTRATION

Informal Discussions

Proposed 2010 Rate Adjustments

Pick-Sloan Missouri River Basin Program

And

Loveland Area Projects

Linda Cady-Hoffman
UGPR Rates Manager

Sheila Cook
RMR Rates Manager

April 15 & 16, 2009

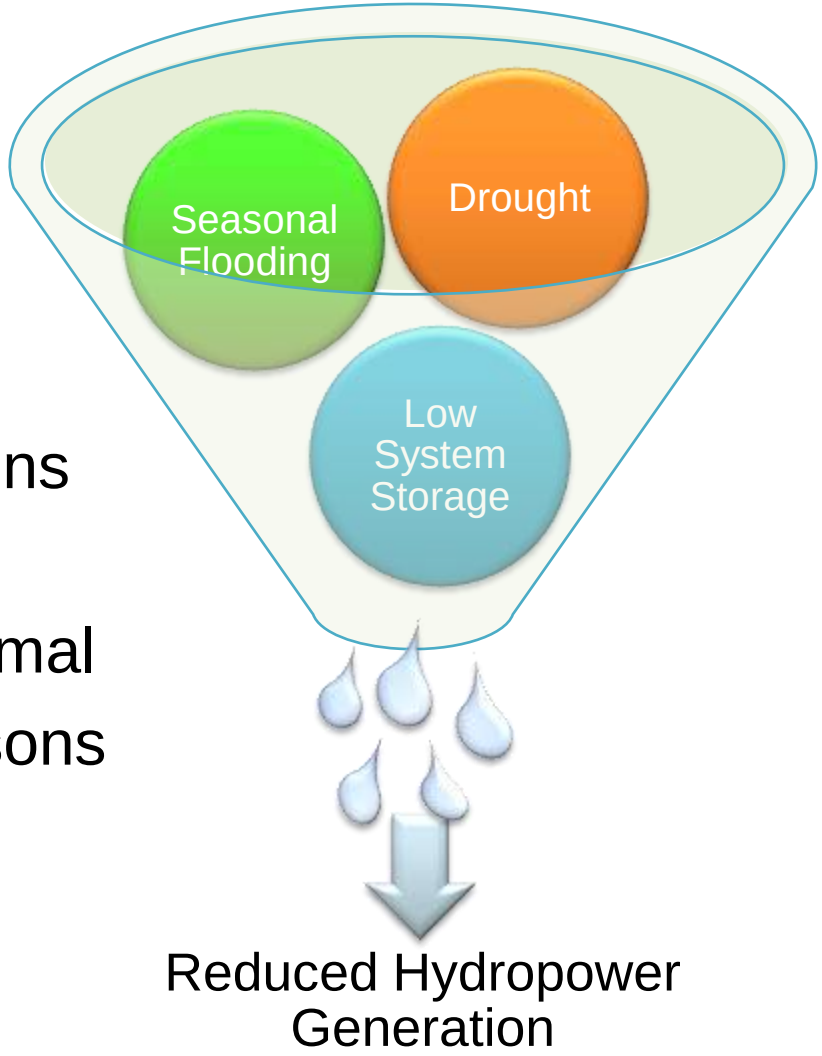
Agenda

- Regional Drought & Seasonal Flood Conditions
- Purchase Power
- Repayment
- Rate Components
- P-SMBP-ED
  - P-SMBP-ED Rate Design
  - P-SMBP-ED 2010 Rate Proposal
- LAP
  - LAP Rate Design
  - LAP 2010 Rate Proposal
- Rate Process Schedule
- Contact Information
- Discussion

Regional Drought & Flood Conditions

Generation Impacts

- 8 years of Drought Conditions
- Seasonal Flooding
- System Storage Below Normal
- Shortened Navigation Seasons
- Wildlife Protection/Support



COE Water Management Update

4/7/09 Missouri River Water Management Monthly News Release

Snowpack & Runoff

- April 1st mountain snowpack is 107 percent of normal
- Normally, 96 percent of the peak accumulation has occurred by April 1st
- Current forecast for runoff 28 MAF, 113 percent of average

Drought

- 2009 Annual Operating Plan contains continued drought conservation measures
- Reservoir storage levels are below normal

Navigation

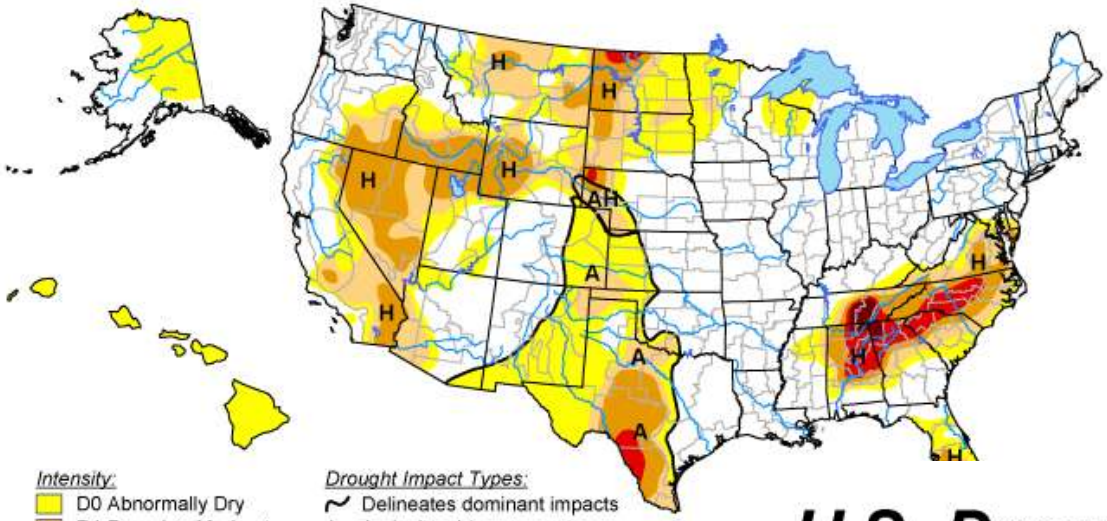
- 2009 navigation season opened at St. Louis, MO, on April 1st
- Due to low storage, only minimum service flow support will be provided
- Forecasts show that the navigation season may be shortened up to 16 days
- Final decision on season length will be made following the storage check on July 1st

Generation

- Six main stem power plants generated 384 million kilowatt hours (kWh) of electricity in March only 69% of normal because of low storage levels and reduced releases from the dams.
- Total energy production for the 2009 water year is forecast to total 6.9 billion kWh, compared to the average of 10 billion kWh.

U.S. Drought Monitor

March 11, 2008
Valid 8 a.m. EDT



Intensity:
- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:
- ~ Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://drought.unl.edu/dm

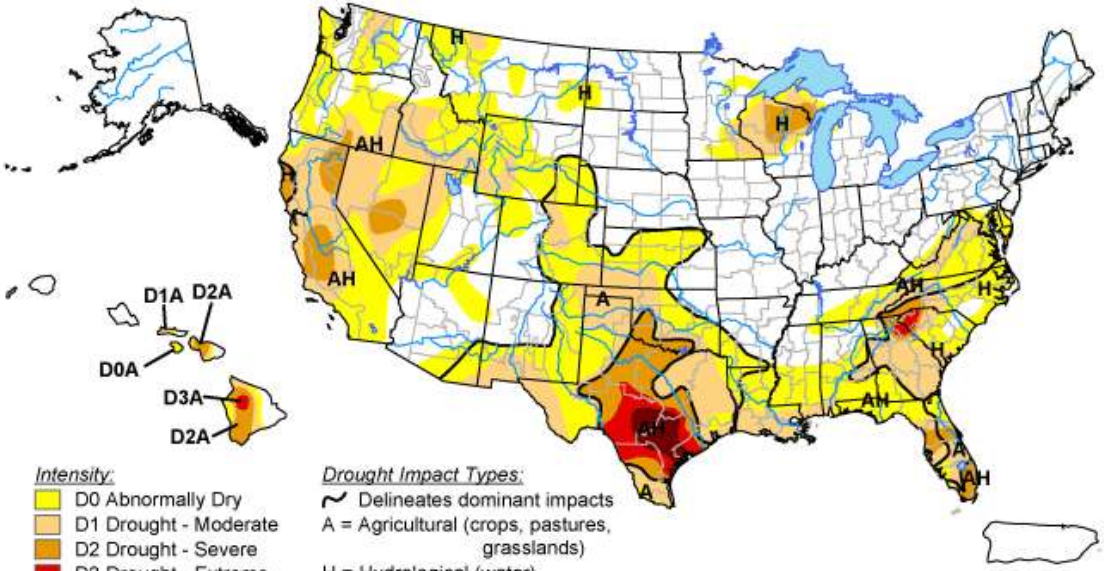
USDA

Release

Author: Brian Fuc

U.S. Drought Monitor

March 10, 2009
Valid 8 a.m. EDT



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http://drought.unl.edu/dm

USDA National Drought Mitigation Center

Released Thursday, March 12, 2009

Authors: Michael Brewer/Liz Love-Brotak, NOAA/NESDIS/NCDC

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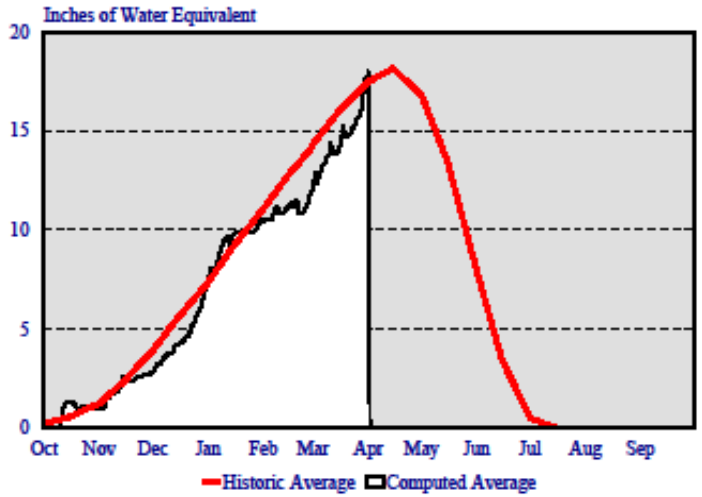
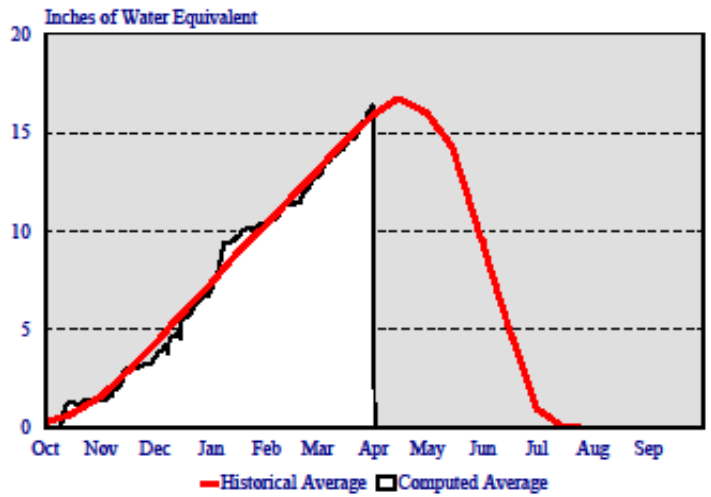
Missouri River Basin
Mountain Snowpack Water Content
2008-2009

Total Above Fort Peck



Total Fort Peck to Garrison

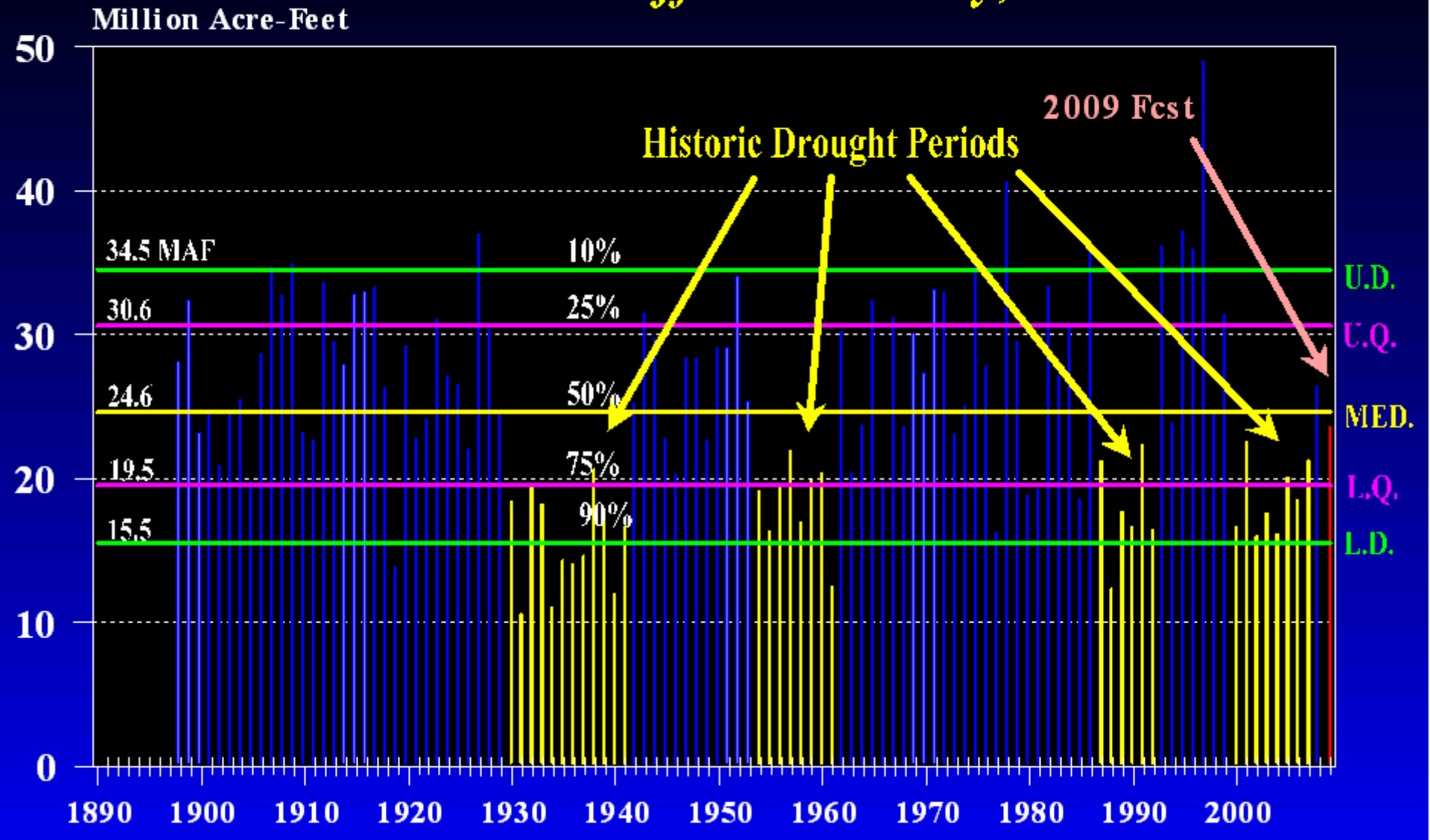


Missouri River basin Mountain Snowpack normally peaks near April 15.
Normally 96 percent of the peak accumulation has occurred by April 1.

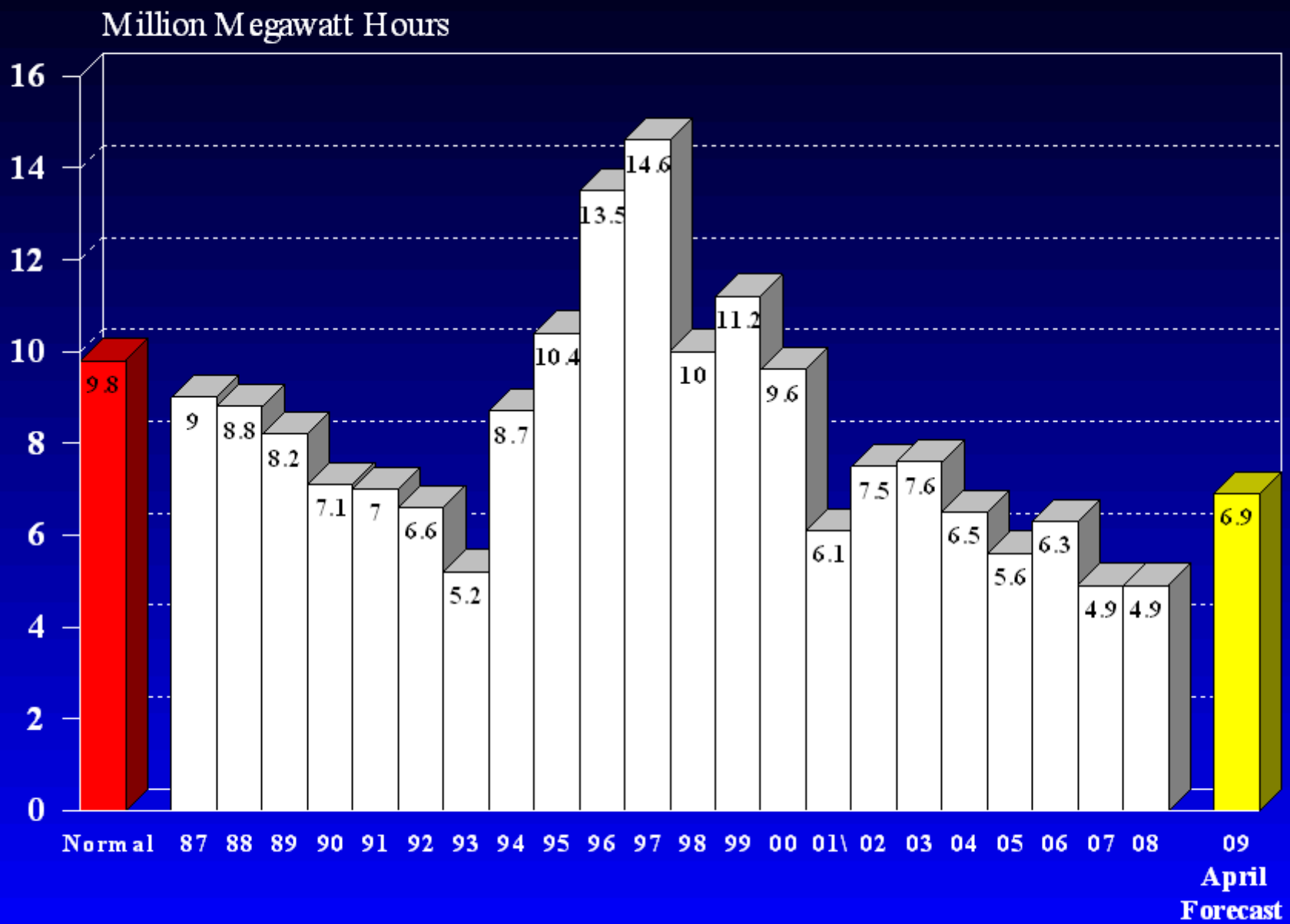
April 1, 2009

Provisional data subject to revision.

Missouri River Mainstem
Annual Runoff at Sioux City, Iowa

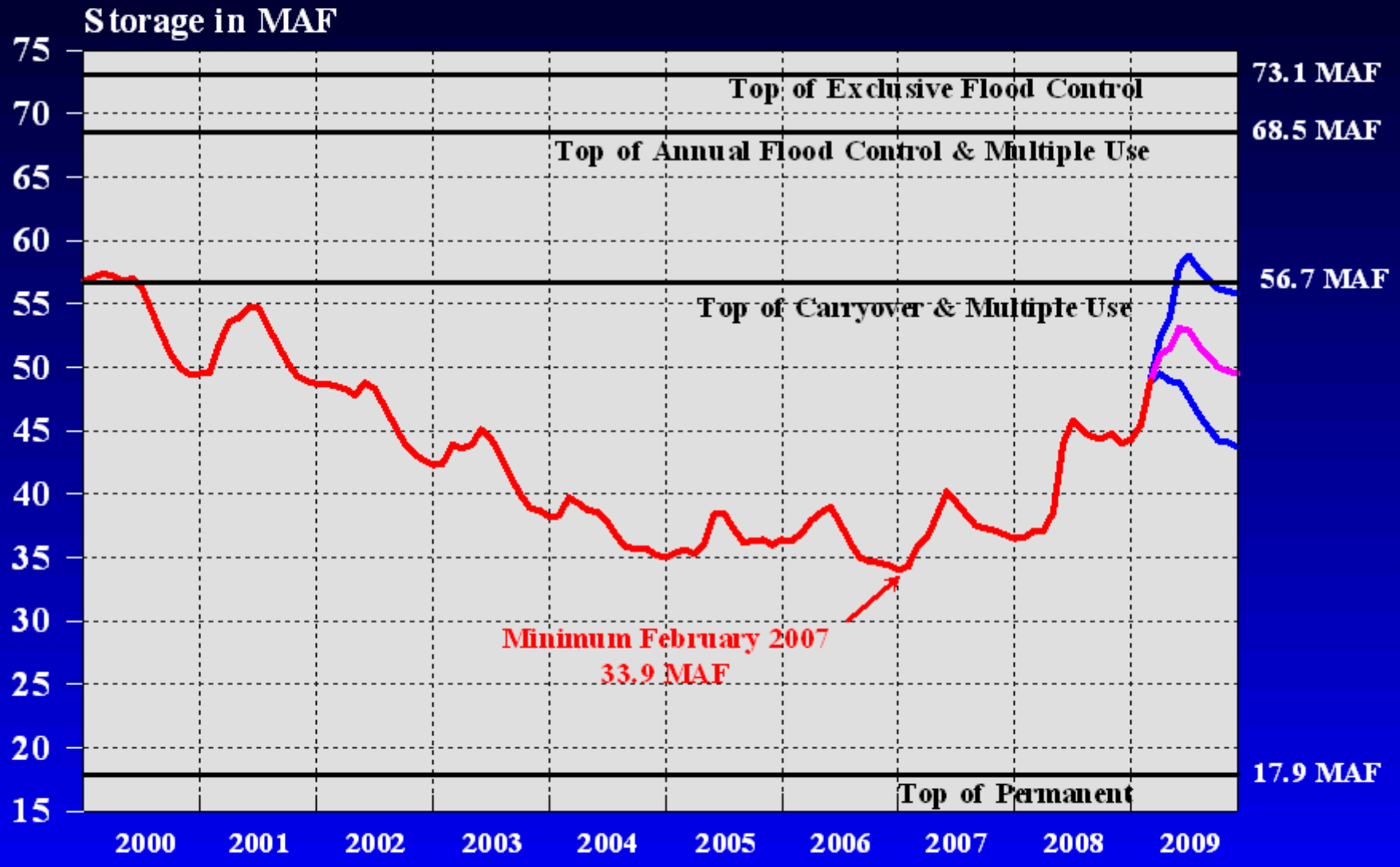


Mainstem System Generation

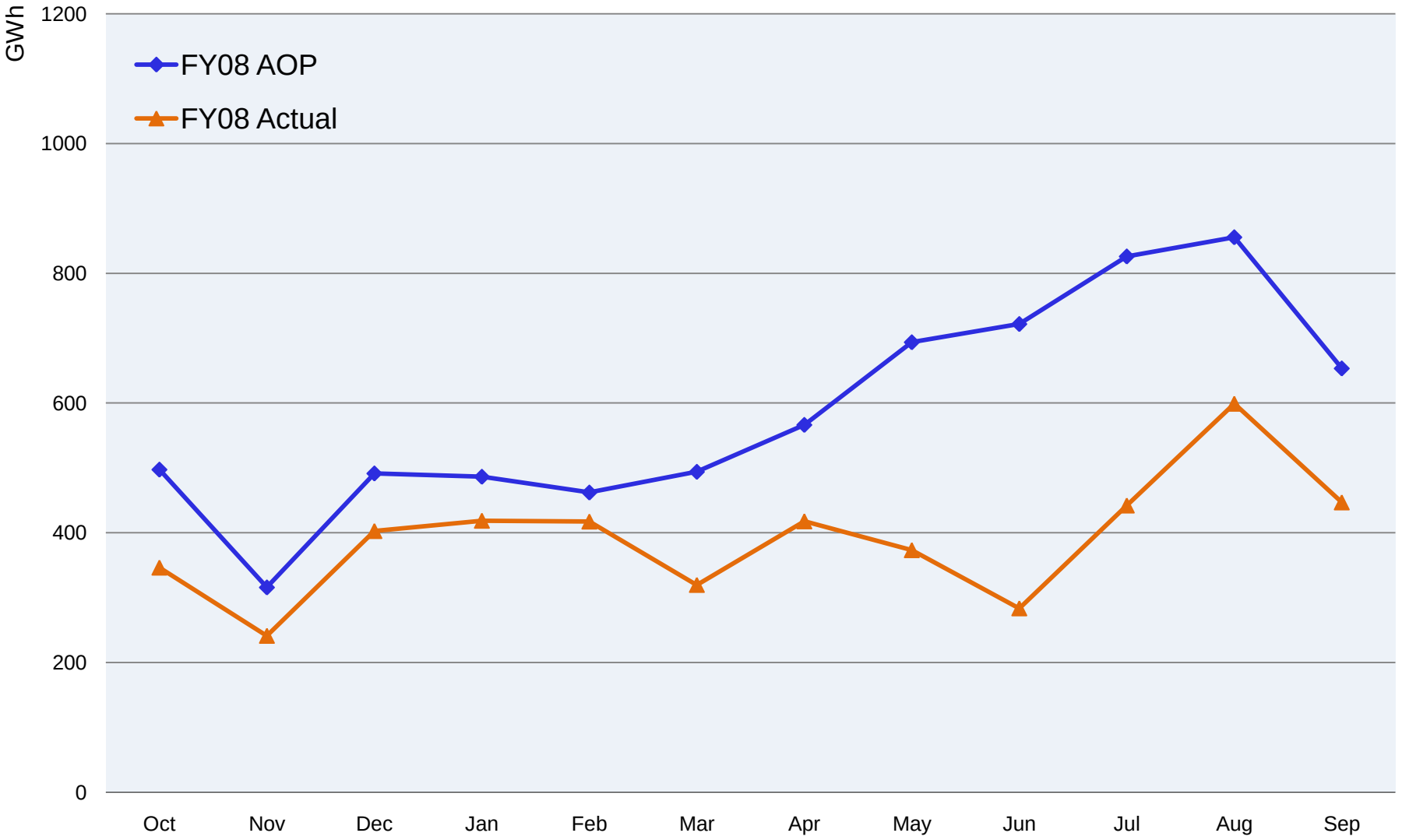


Missouri River Mainstem

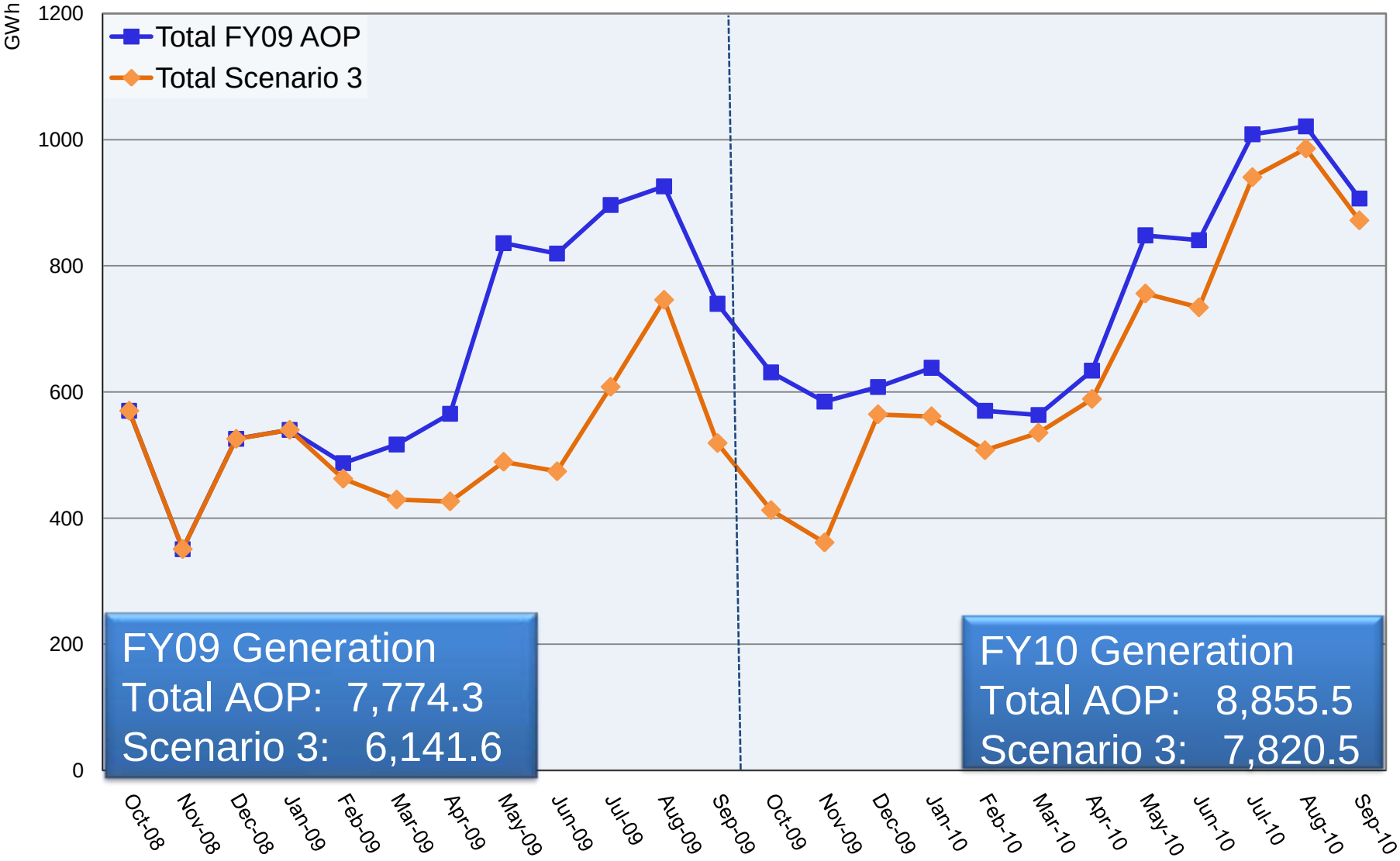
System Storage 2000-2009



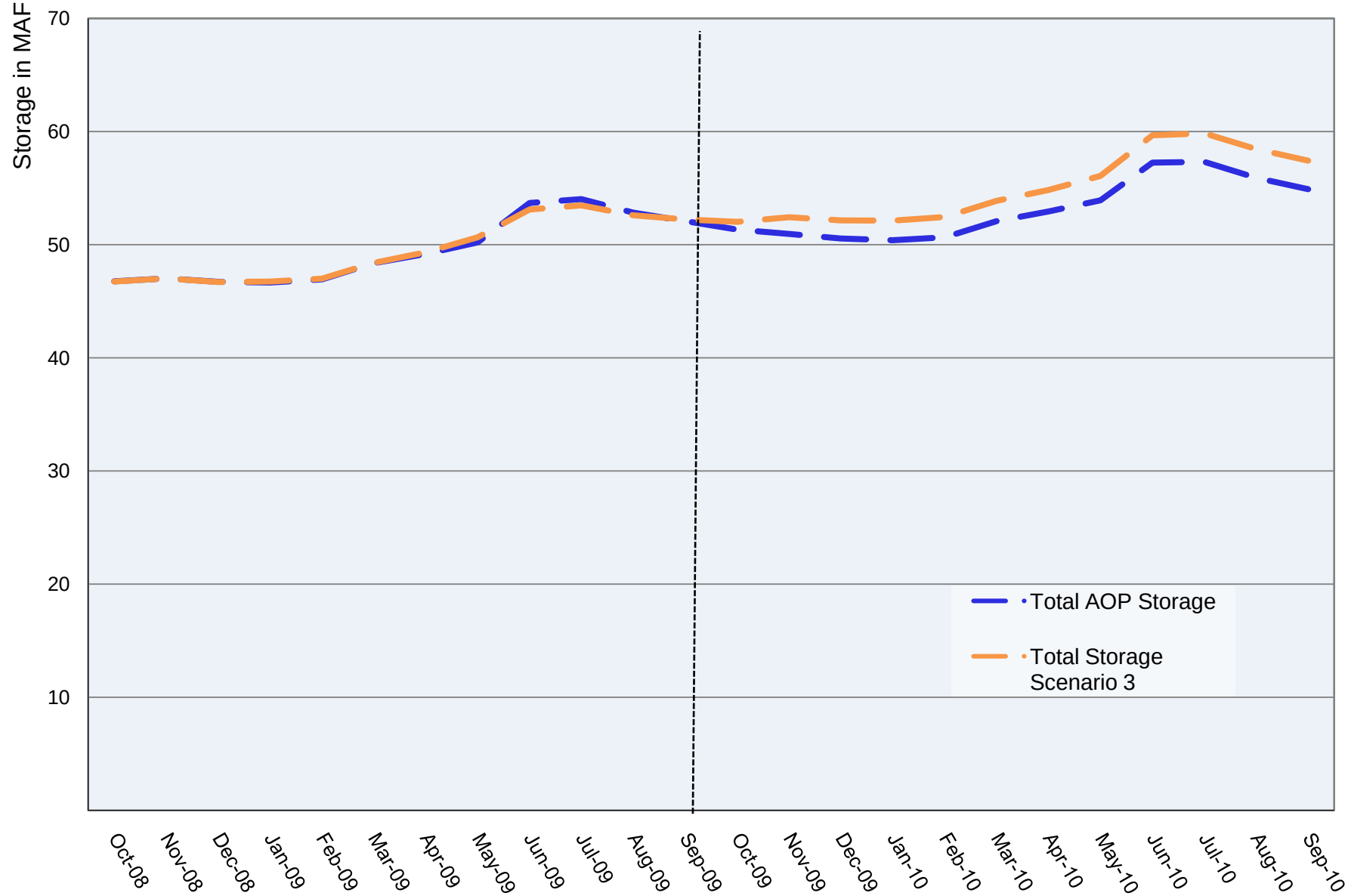
2008 COE Generation



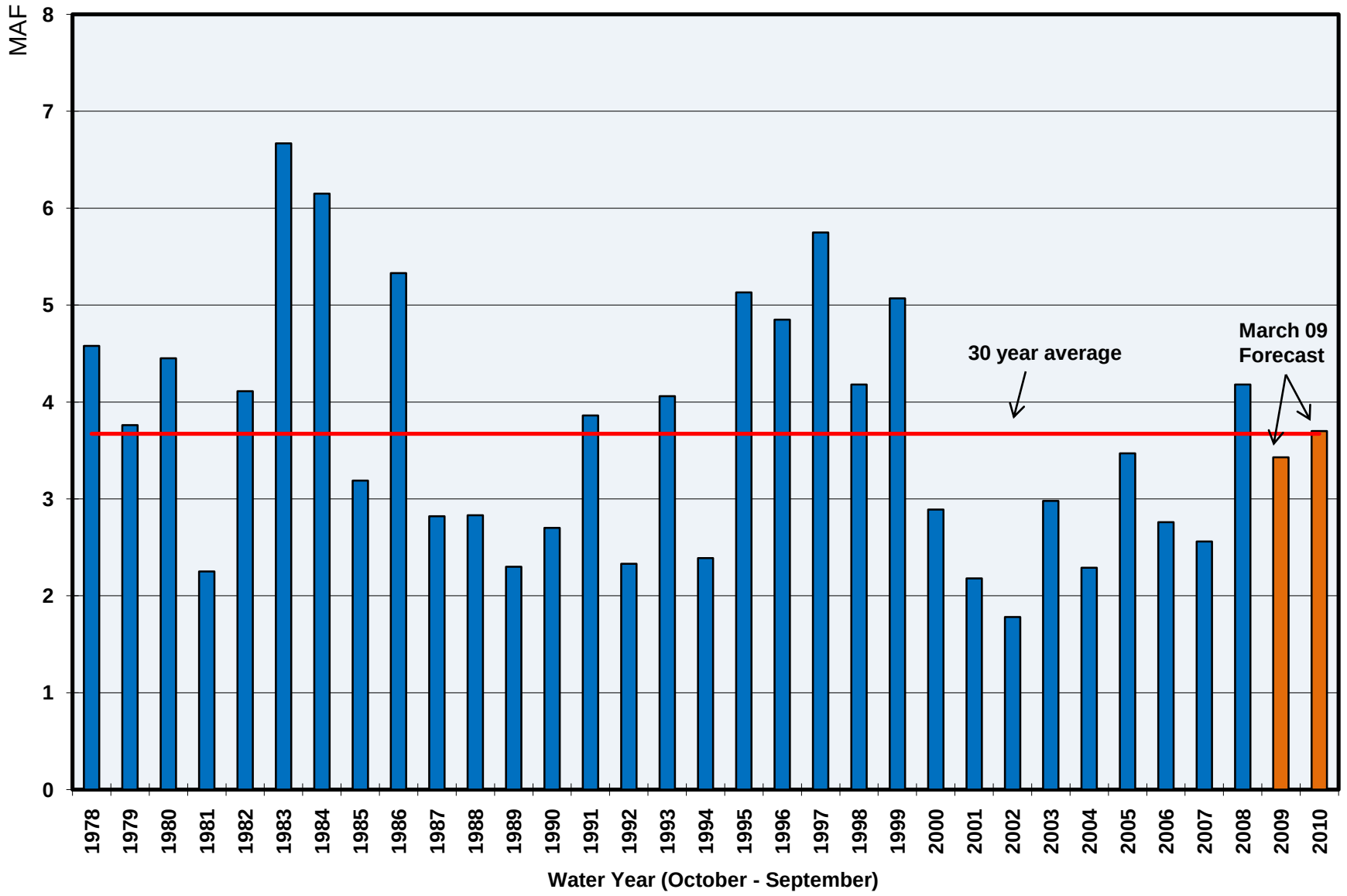
FY09 - FY10 Total COE & BOR Generation



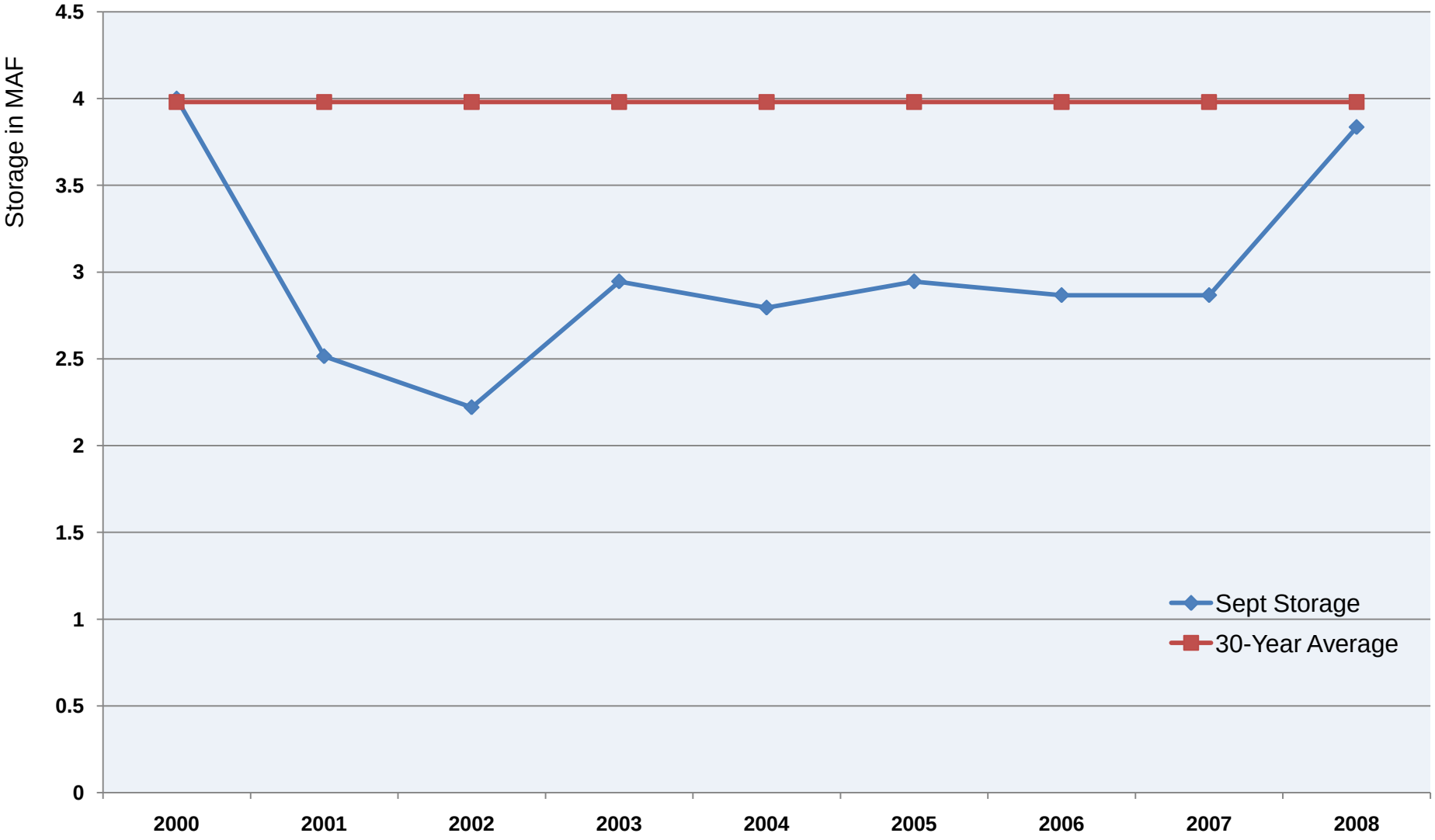
FY09 - FY10 COE & BOR Storage Scenario 3



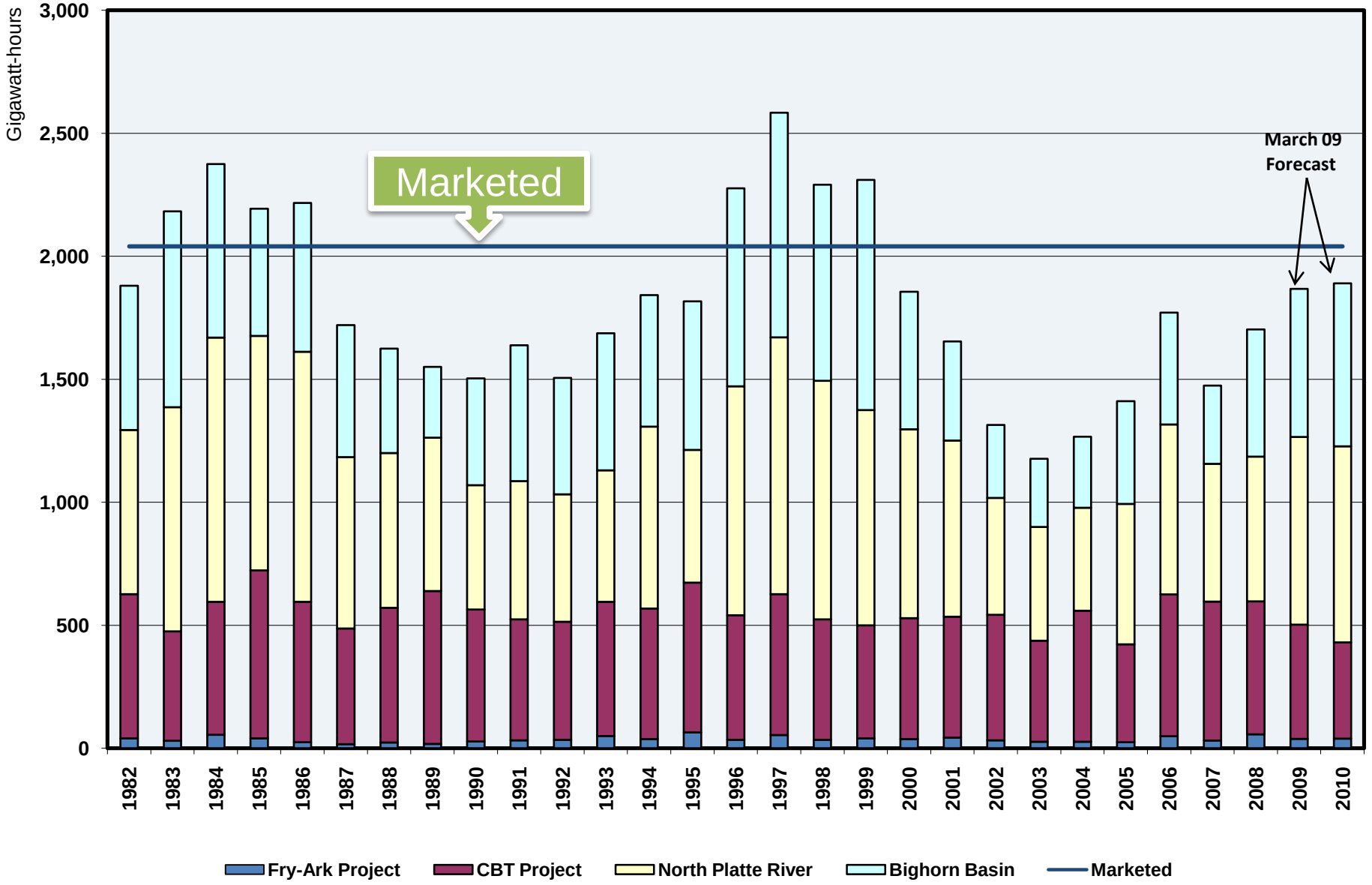
Annual LAP Reservoir Inflow with Projected FY09 & FY10



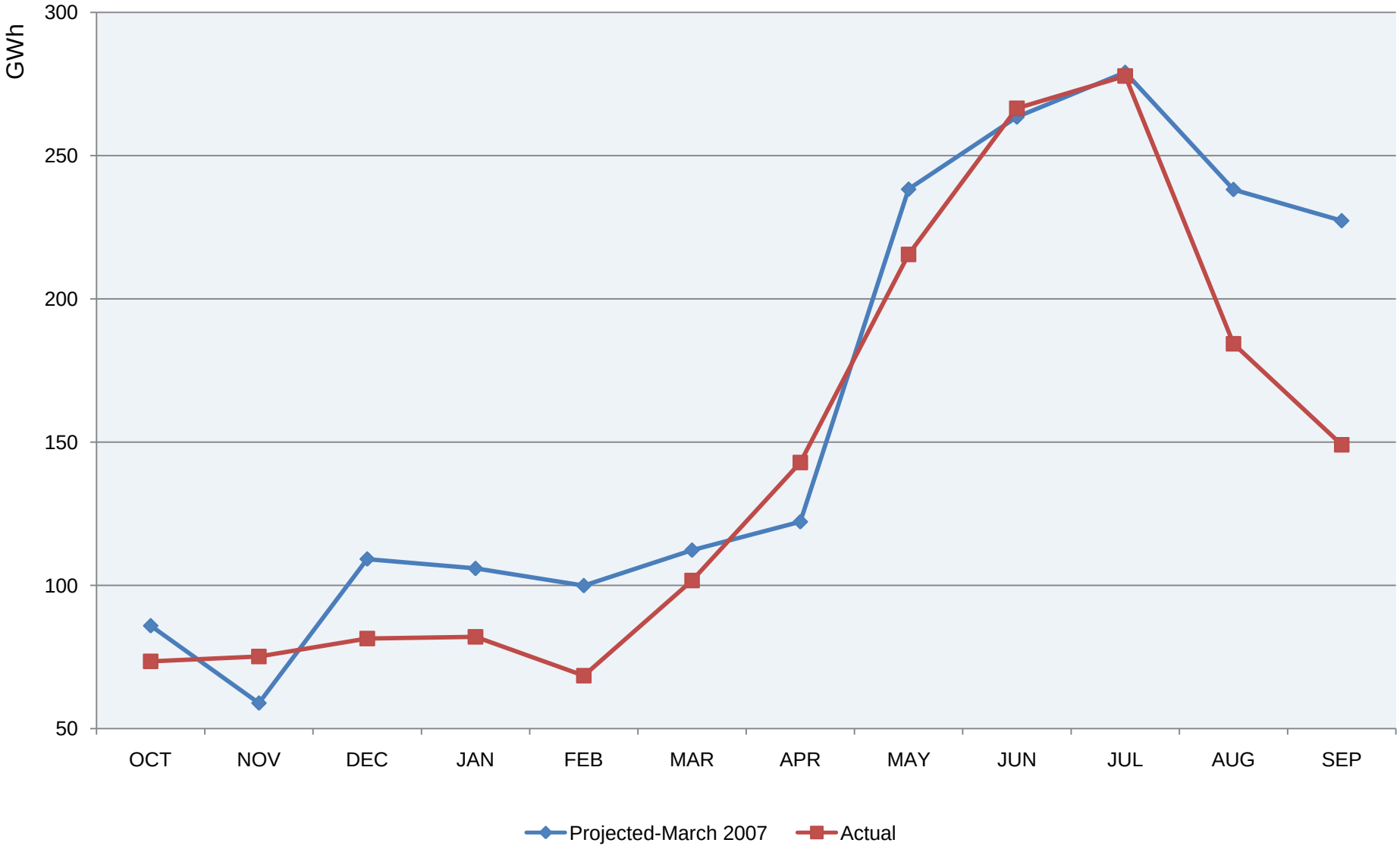
LAP Storage 2000-2008



LAP Gross Generation at Plant with Forecasted FYs 09-10

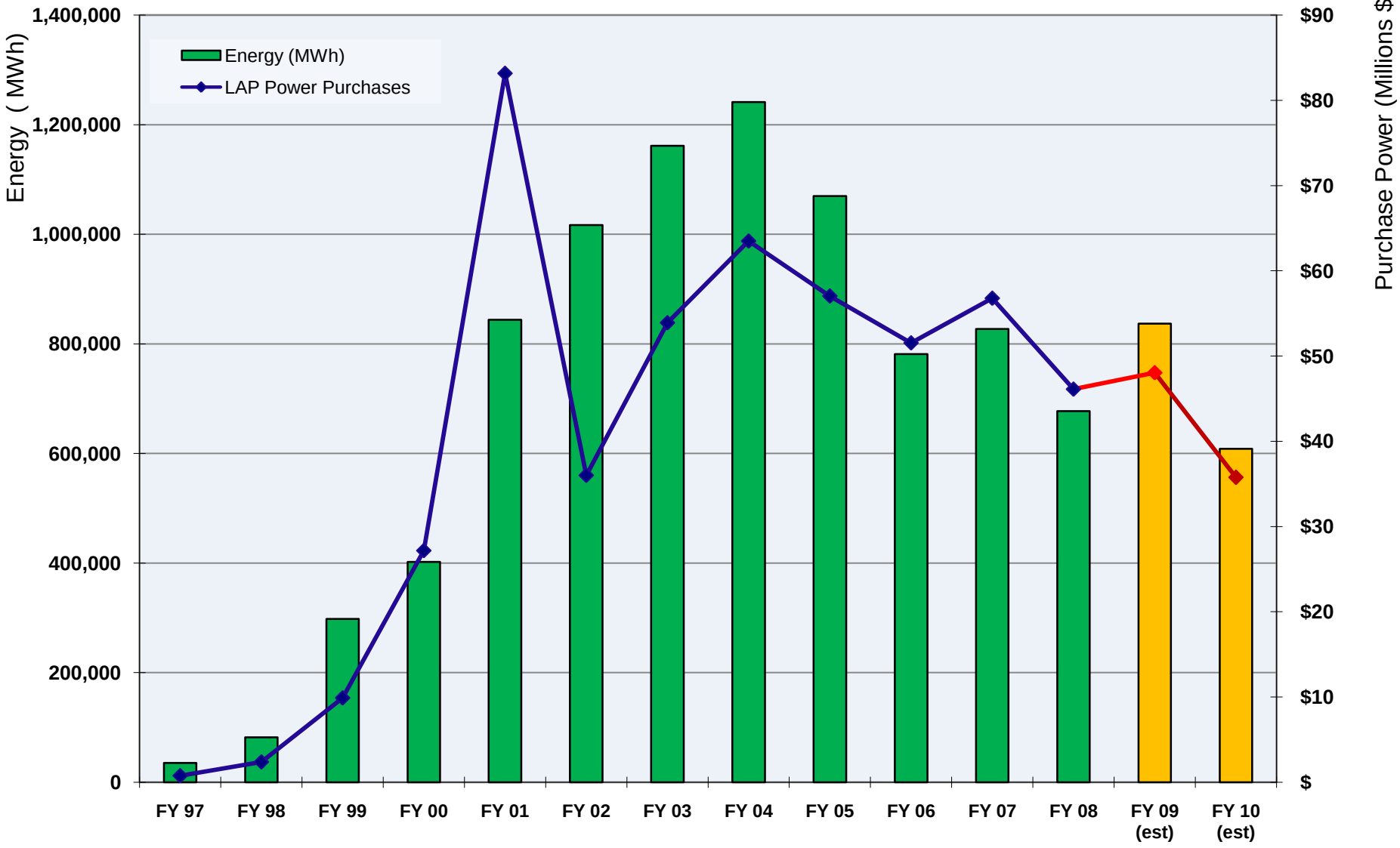


LAP FY08 Generation Forecast vs. Actual

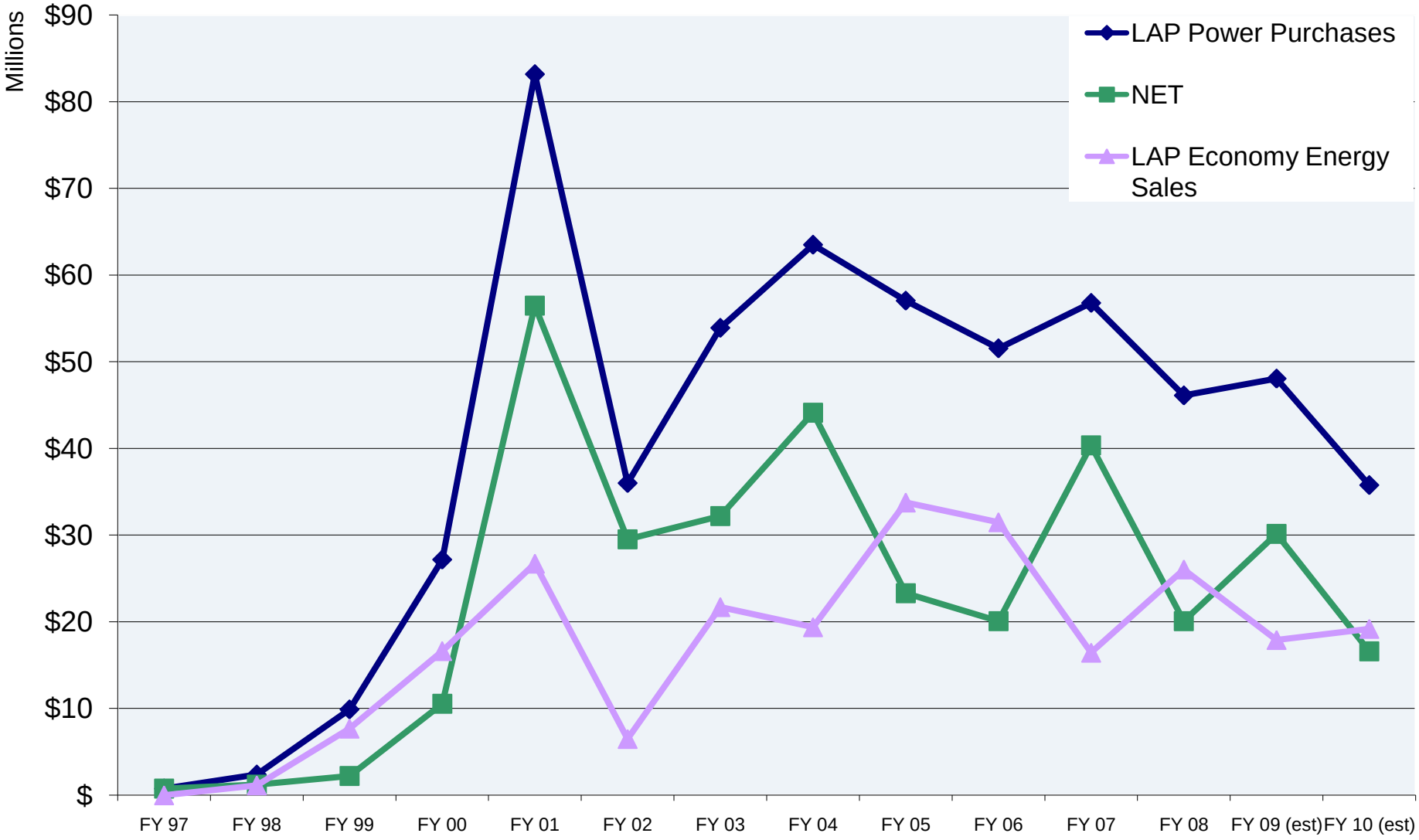


LAP
Purchase Power Expense

LAP Purchases
Energy and Expense



LAP
Power Purchases and Sales



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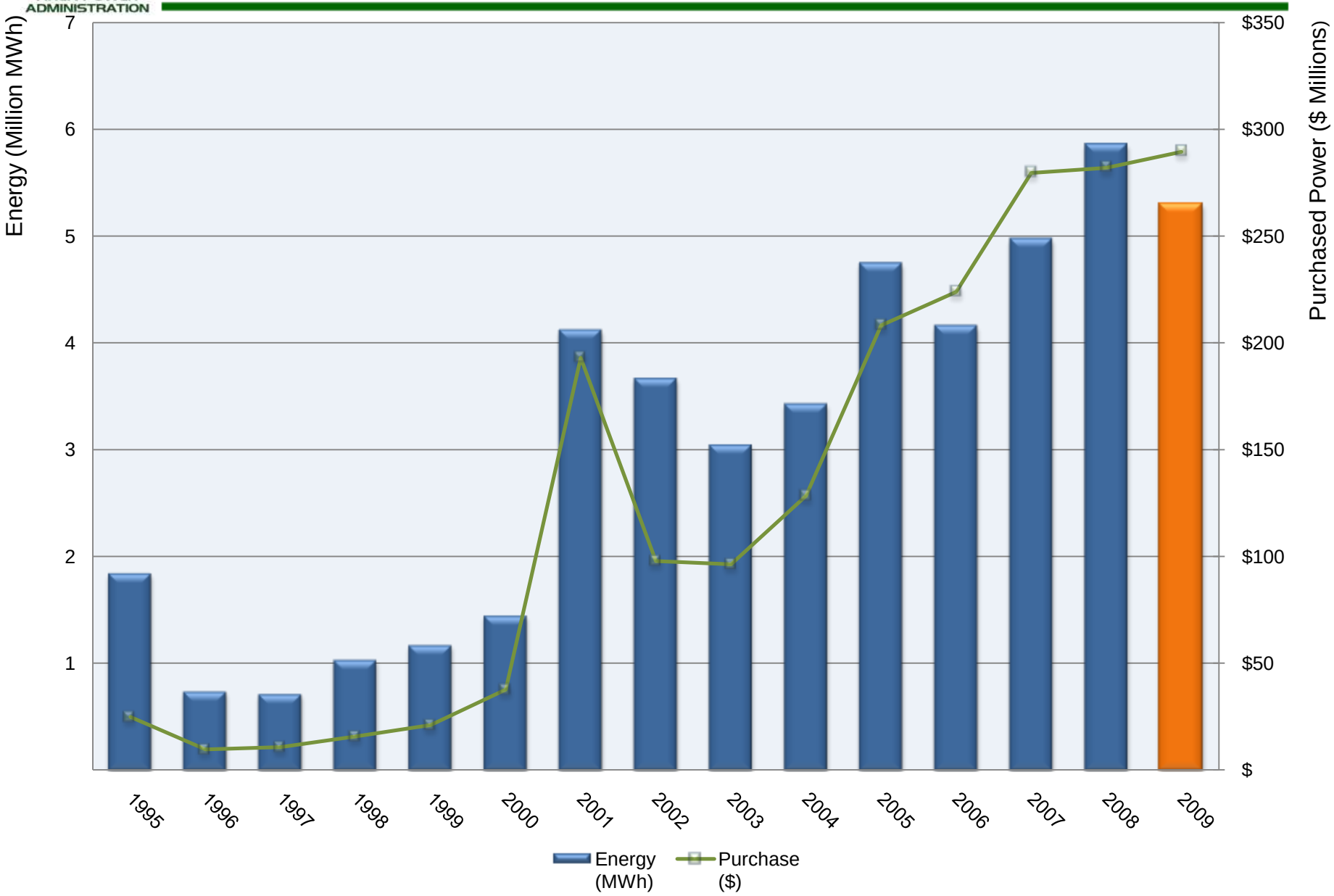
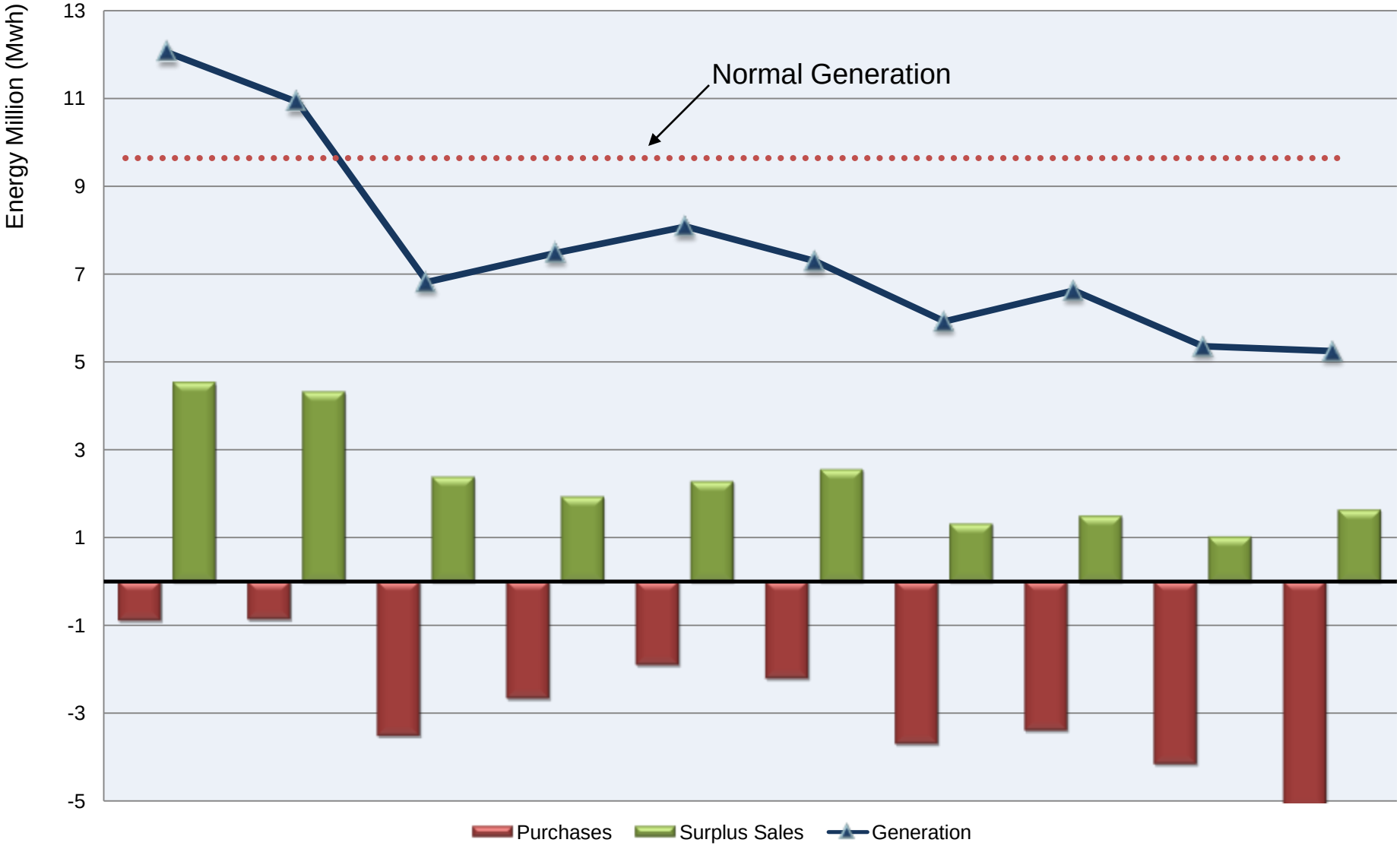
Pick-Sloan
Purchase Power Expense

P-SMBP Firming Purchases
(Energy and Expense)



P-SMBP--Eastern Division Firming Energy

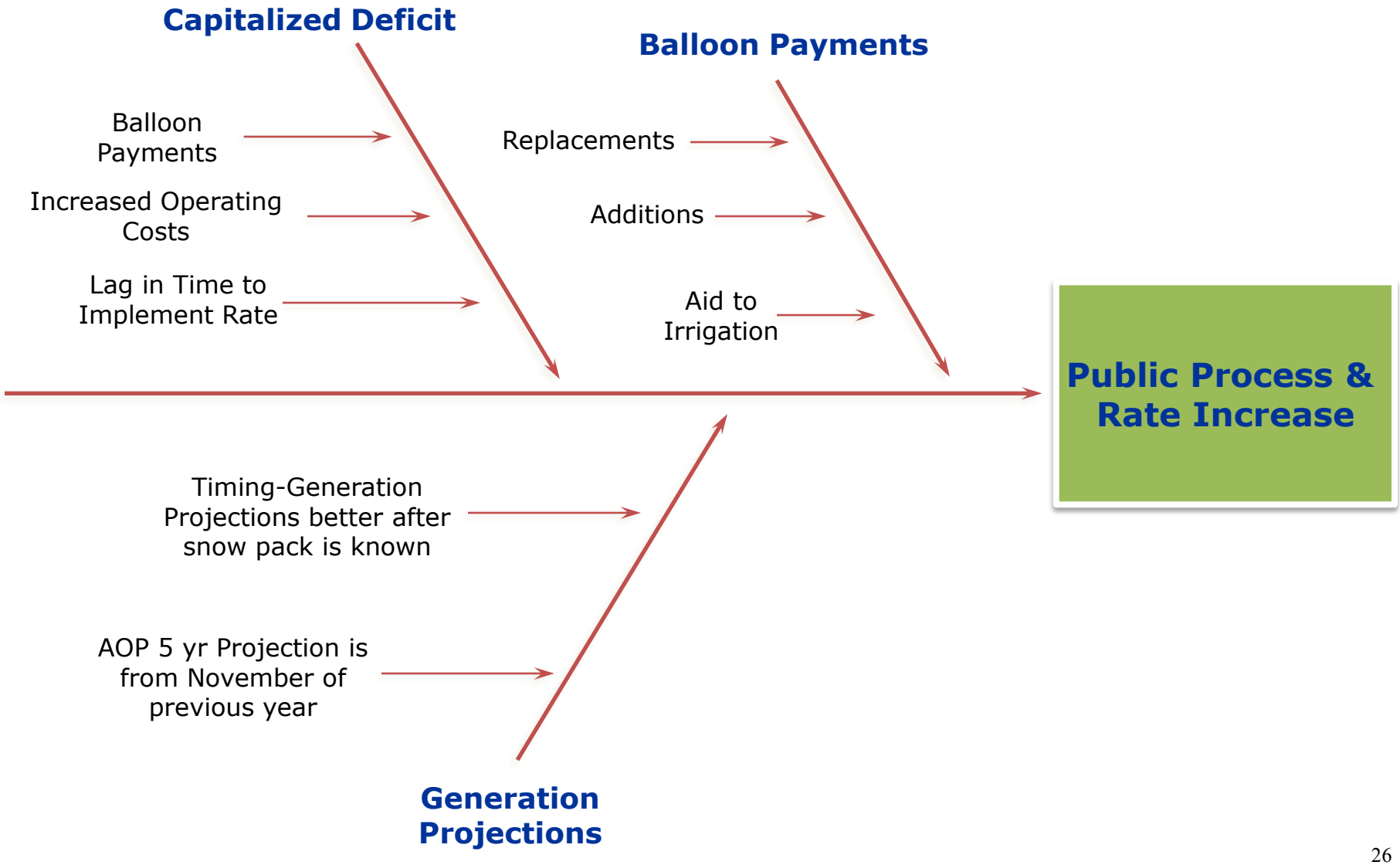


Pick-Sloan Repayment

Pick-Sloan
Final 2008 PRS

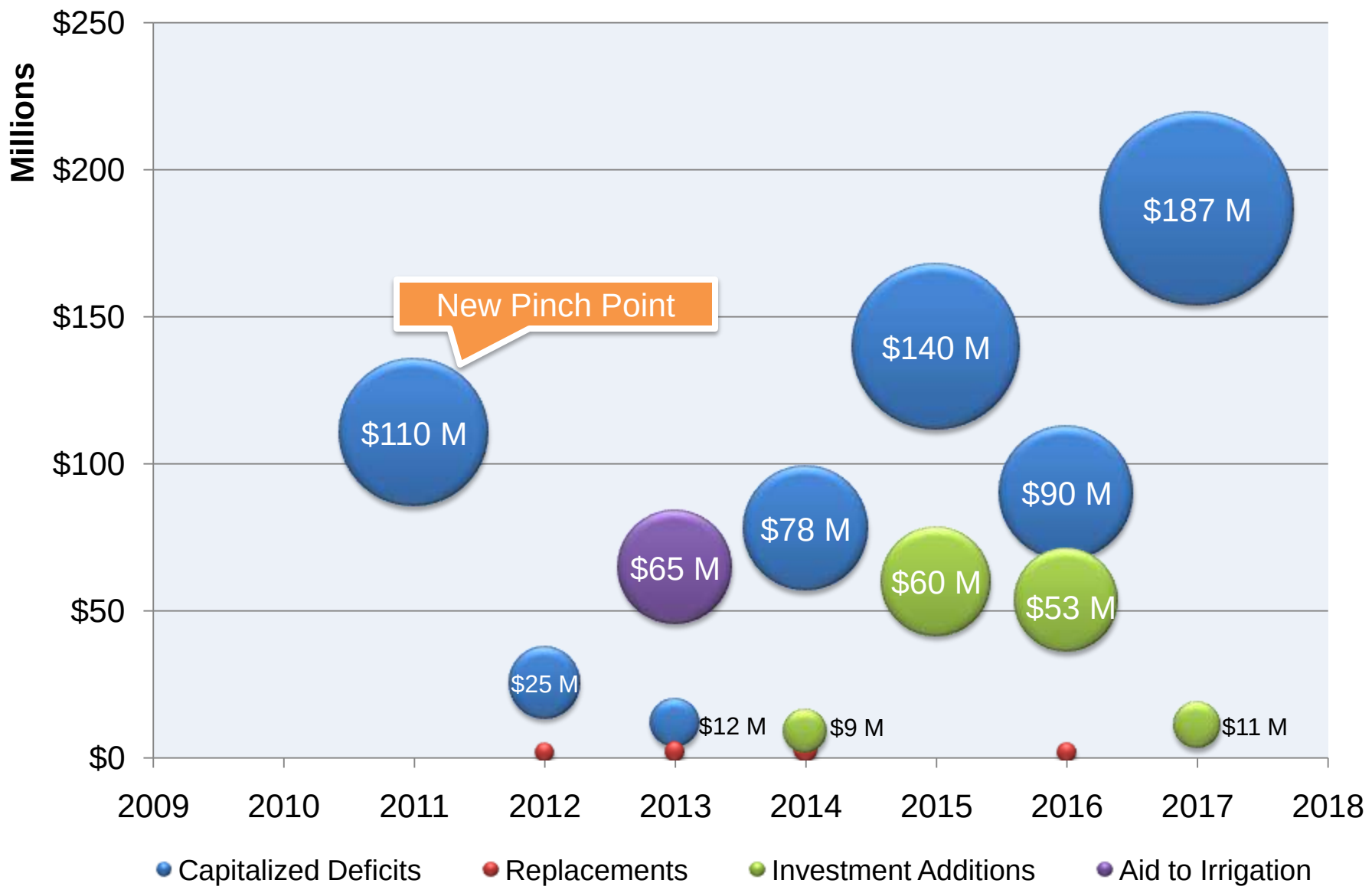
- Current Cumulative Deficit is $797.3 M
- Projecting additional 2009 deficit of $147 M
- Projected Cumulative Deficit of $944.5 M
- First Drought Deficit payment coming due in 2011
- Includes updated water projections and 2010 work plans
- Pick-Sloan Composite Rate solved at 33.54 mills/kWh
  - 3.91 mills/kWh increase
  - up from 29.63 mills/kWh due to updated water projections and prices
- 2008 historical data un-audited

Impacts to Rate

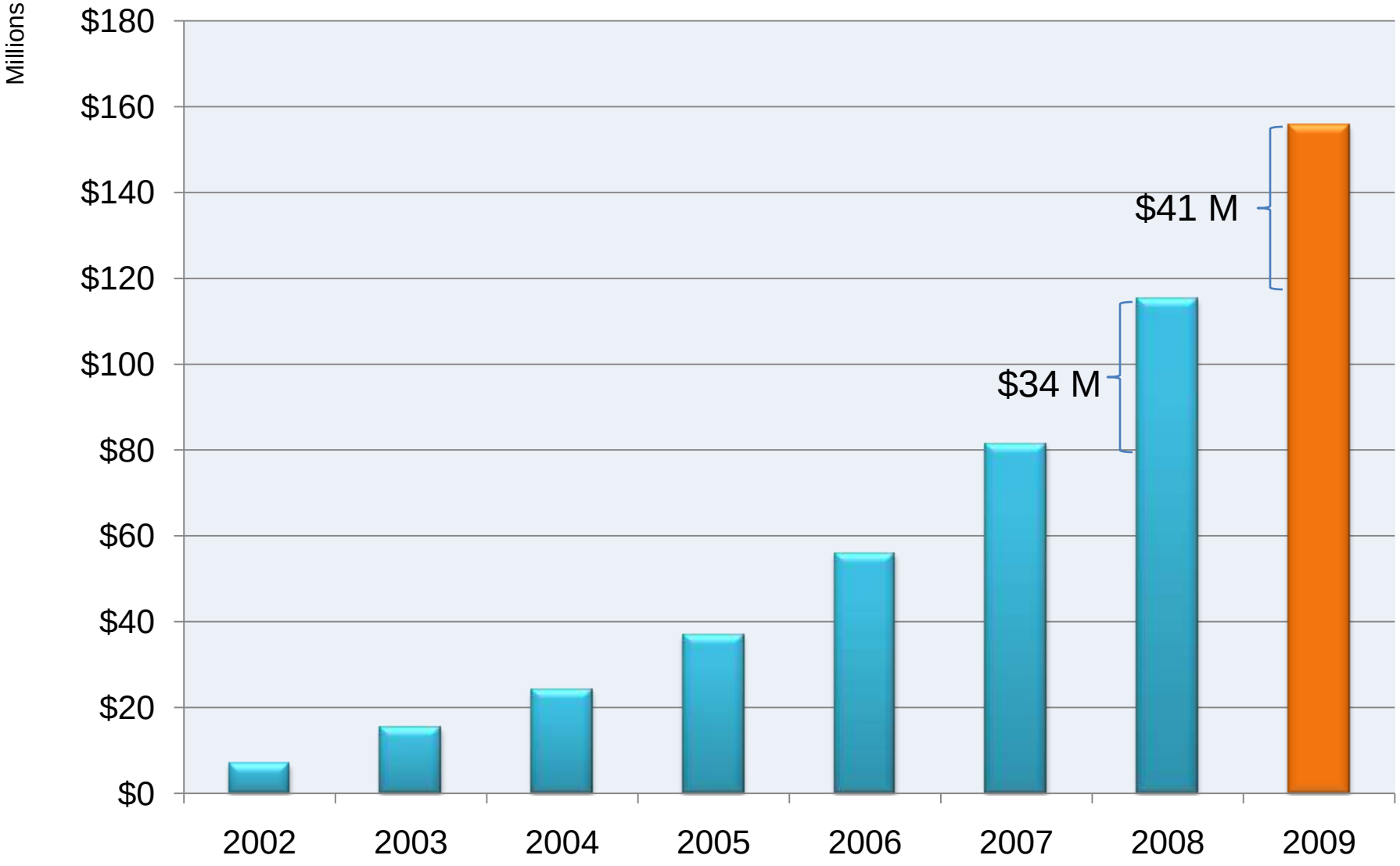


P-SMBP
Cumulative Drought Deficit

P-SMBP Required Payments

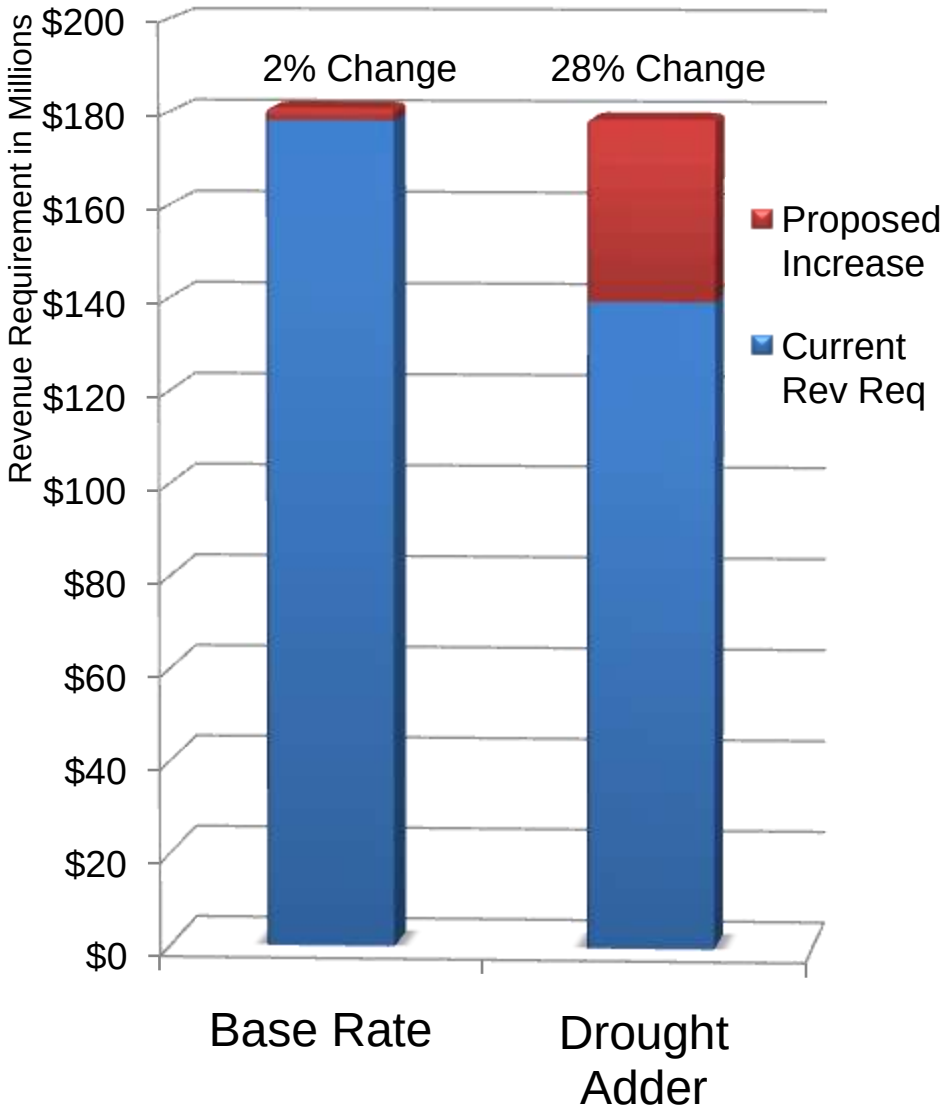


P-SMBP
Cumulative Interest Deficit



Pick-Sloan Rate Components
Current Rate vs. Proposed Change

- Rate solved for 2010
- P-SMBP composite 33.54 mills/kWh is a 13% increase
- 2010 drought adder includes estimate for FY09 and FY10 purchase power
- Shows need to adjust drought adder above 2 mills/kWh cap
- Drought Adder increase is 3.66 mills/kWh



Pick-Sloan
Proposed 2010 Rate Adjustment

	Composite Rate (mills/kWh)	Percent Increase	Pick-Sloan Firm Power Rev Req ($ millions)
Current Rates Effective February 1, 2009	29.63	21%	$317.9
Proposed Rates Effective January 1, 2010	33.54	13%	$359.9

Fry-Ark Repayment

Fryingpan-Arkansas Project
Final 2008 PRS

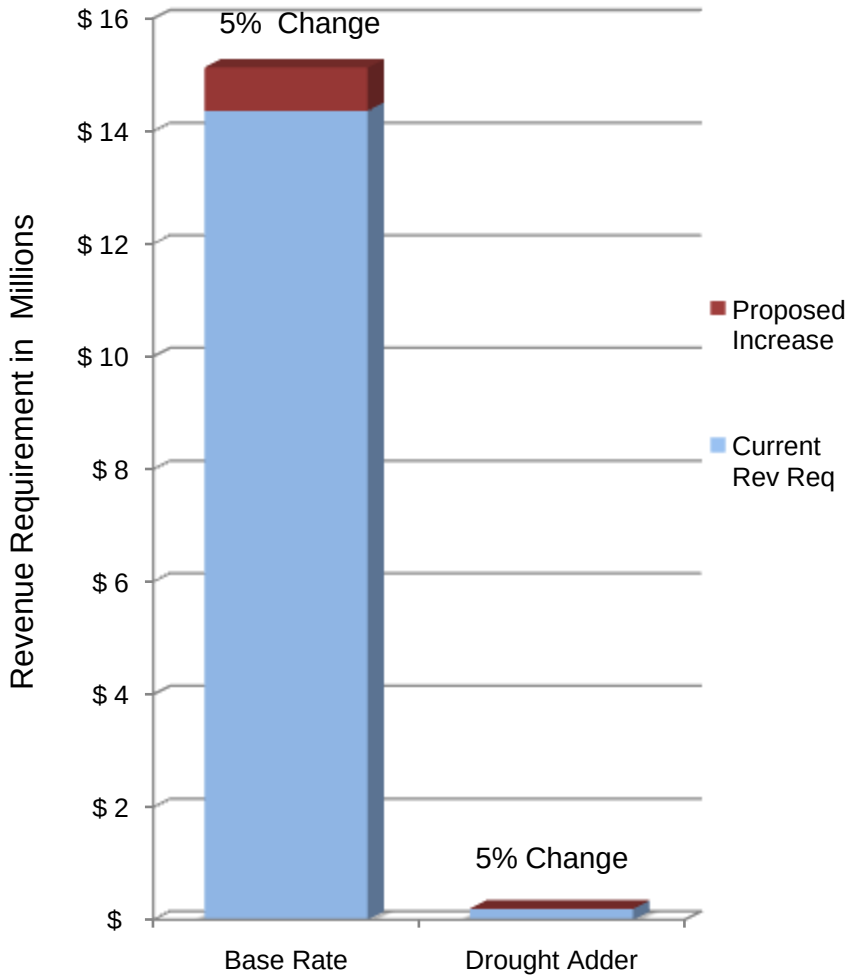
- Includes BOR and Western 2010 work plans
- Includes most probable generation projections as of March 2009 for FYs 09-10
- Includes $5 million of annual transmission expense through 2024 (end of the marketing plan)
- No deficits
- 2034 Pinch-Point
- Solved with a Revenue Requirement of $15.3 M ($783 thousand or 5% increase)

Fryingpan-Arkansas Project Final 2008 PRS

- Transmission Expense associated with Mt. Elbert
  - Current contract may expire September 30, 2010
  - Previous PRSs have projected $4 million of annual transmission expenses only through 2013 (the end of the contract term (2010) plus 3 additional years)
  - Various options are being studied
  - Current estimate of costs for transmission and ancillary services is $5 million per year
  - We have included these costs through the end of the marketing plan (2024), 11 additional years
  - Goal is to eventually include these costs through the end of the study

Fry-Ark Rate Components
Current Rate vs. Proposed Change

- Rate solves for 2010
- Fry-Ark Revenue Requirement is $15.3 M a 5% increase
- Base includes future transmission expense
- 2010 Drought Adder includes estimate for FY09 and FY10 purchase power



Pick-Sloan and Fry-Ark Rate Components

Rate Components
(Pick-Sloan & Fry-Ark)

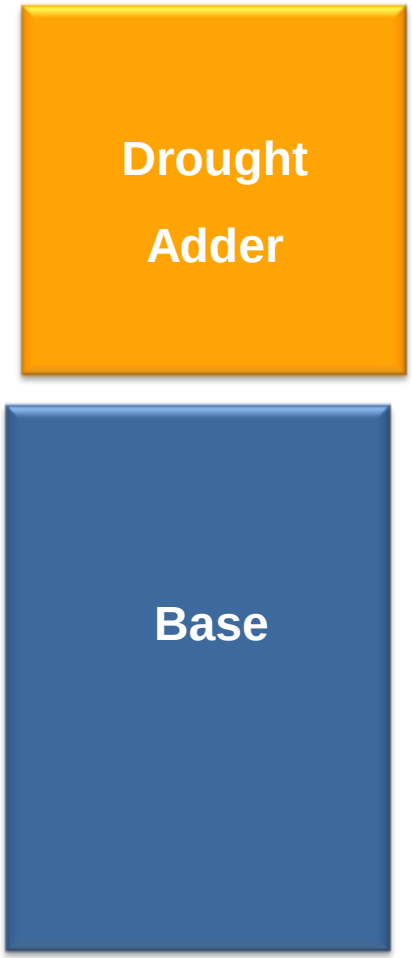
Drought Adder + **Base Rate**

Adjusted Annually by Formula or by Public Process

Adjusted only by Public Process

Rate Component Overview

(Pick-Sloan & Fry-Ark)

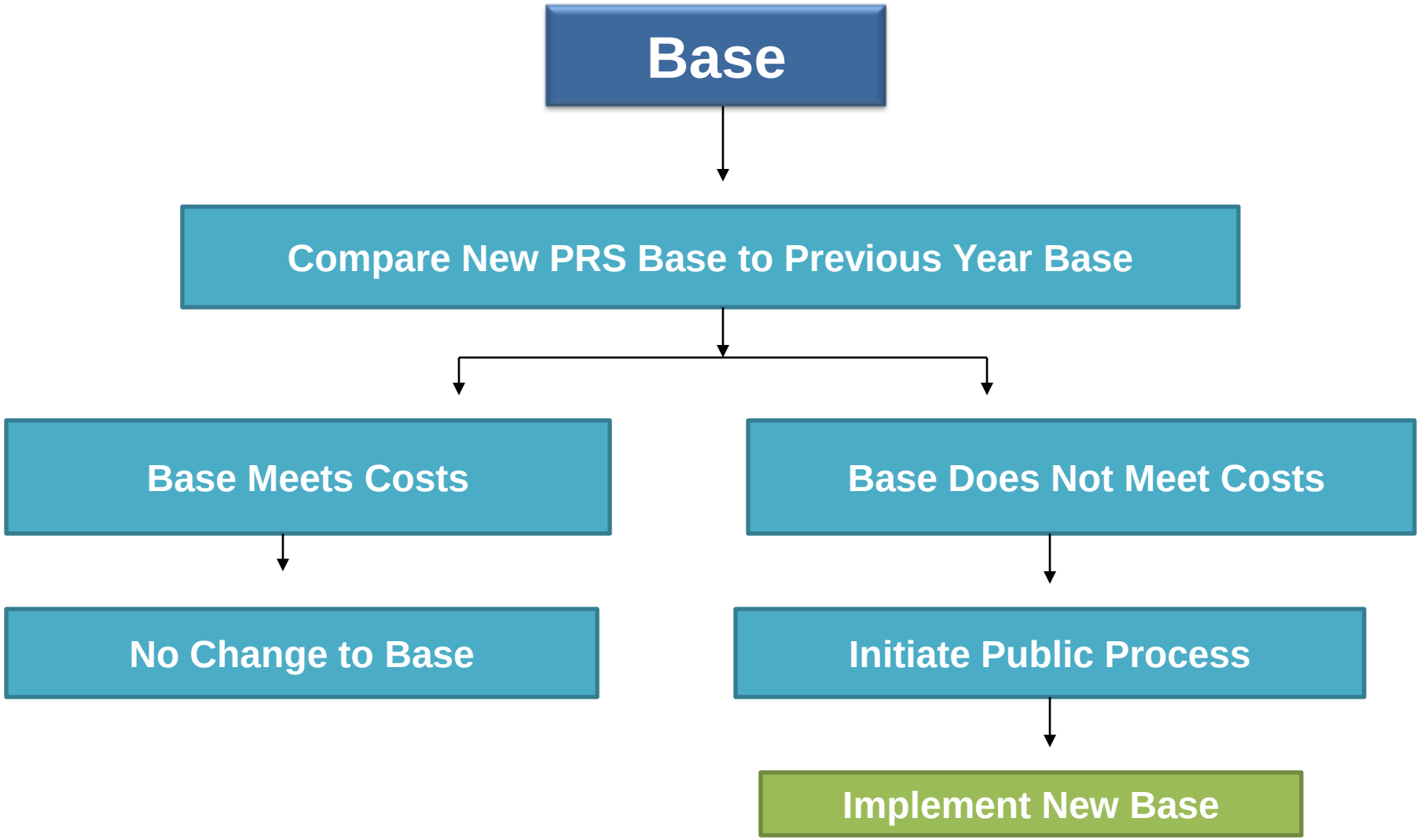


- Recovers cost associated with the drought
  - Purchase Power related to drought
  - Historical drought debt
  - Interest on drought debt

- Annual O&M
- Investments - Additions and Replacements
- Annual Interest on Investment
- Inflation
- Normal Purchases
- Transmission Costs

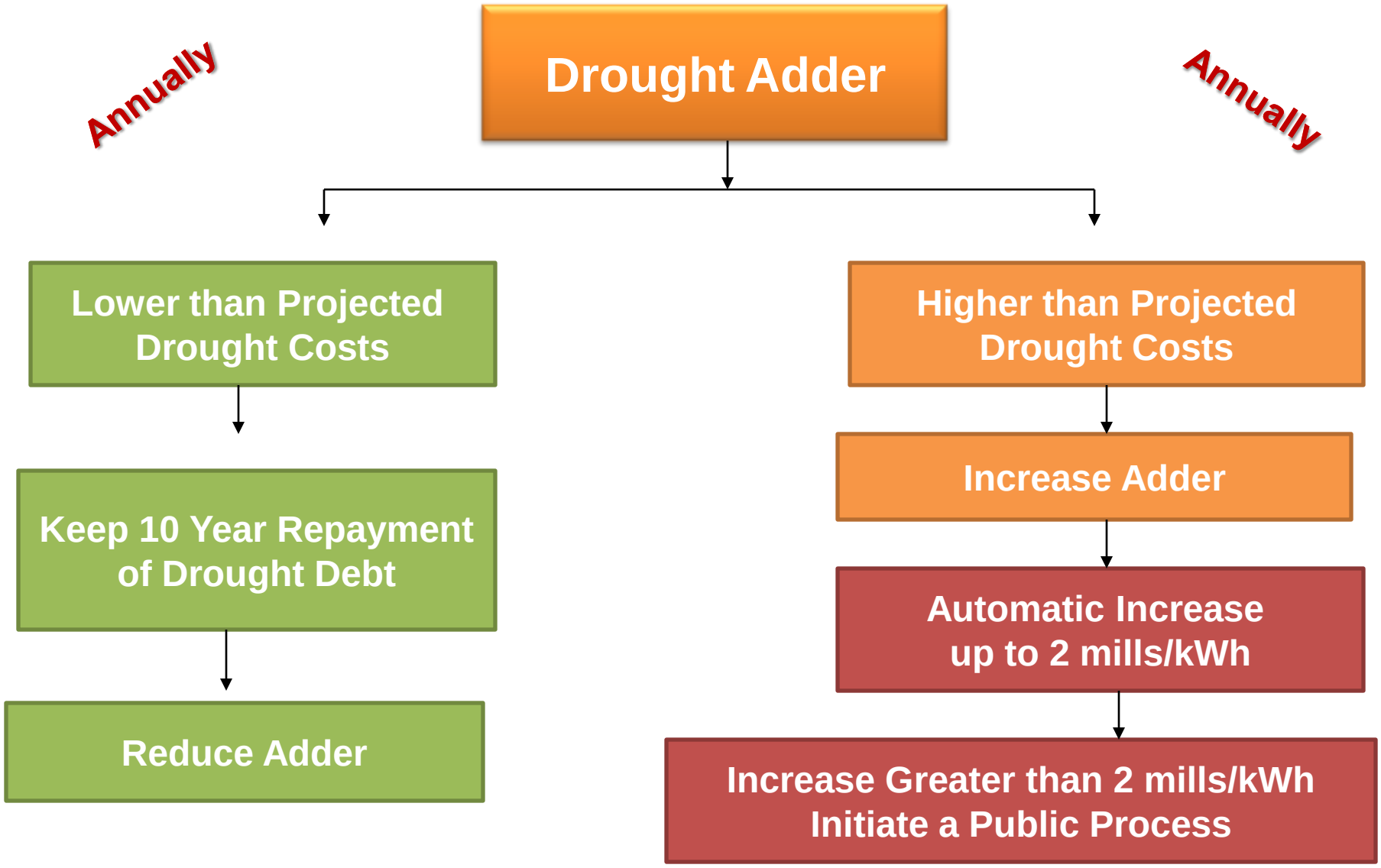
Base Methodology

(Pick-Sloan & Fry-Ark)



Drought Adder Methodology

(Pick-Sloan & Fry-Ark)



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Pick-Sloan ED Rate Design and 2010 Rate Adjustment Proposal

Eastern Division Rate Design

- Firm capacity based on Metered Capacity Billing Units of 17,876 MW-mo/year
- 8,742 GWH of Firm Energy
- 356 MW of Peaking capacity recovered in the 50/50 capacity and energy split
- Peaking capacity based on CROD billing units of 4,272 MW-mo/year

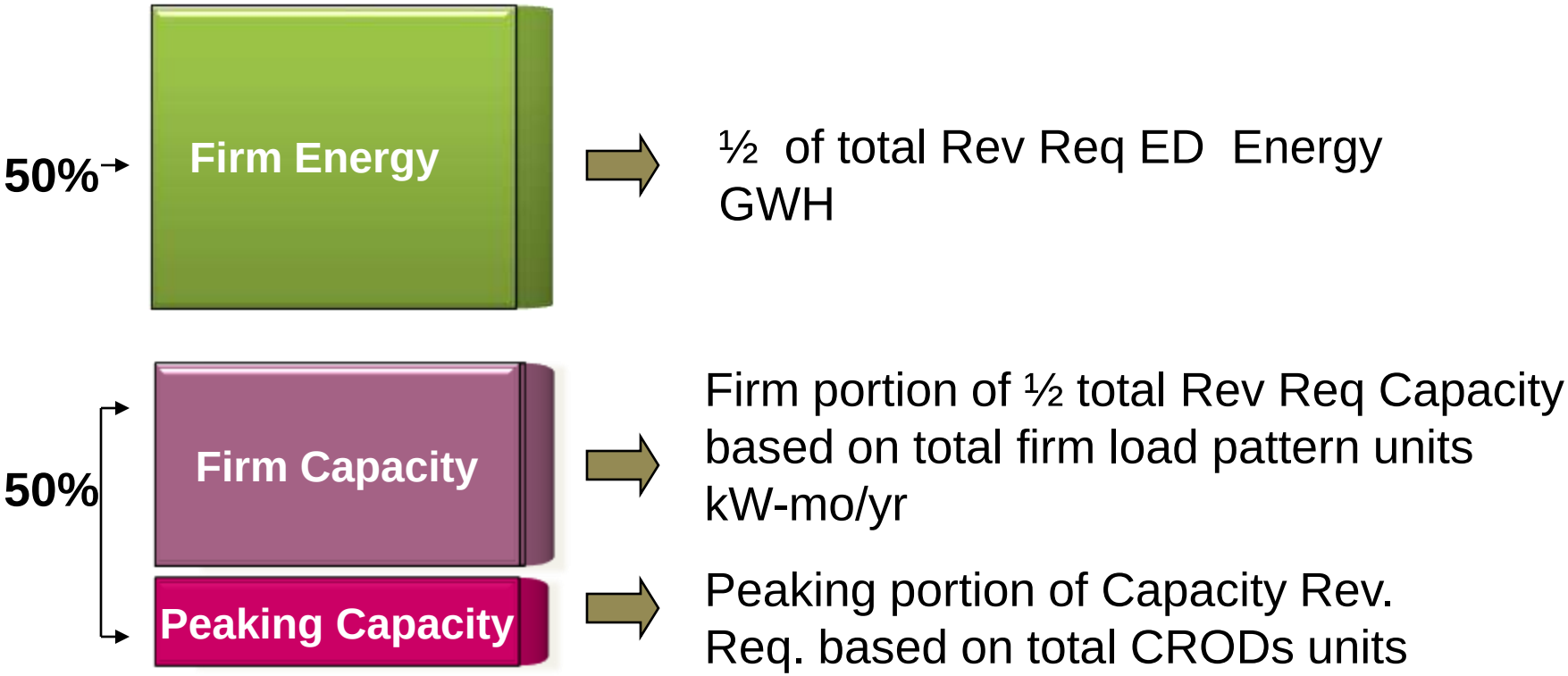
Rate Design

Eastern Division rate is 50/50 design where 50% of the revenue is recovered from the capacity rate and 50% is recovered from the energy rate:

Firm Power Rev Req	$ 290.7 Million
Peaking Revenue	$29.5 Million
5% Discount	$12.6 Million
Gross Revenue Req	$ 332.8 Million

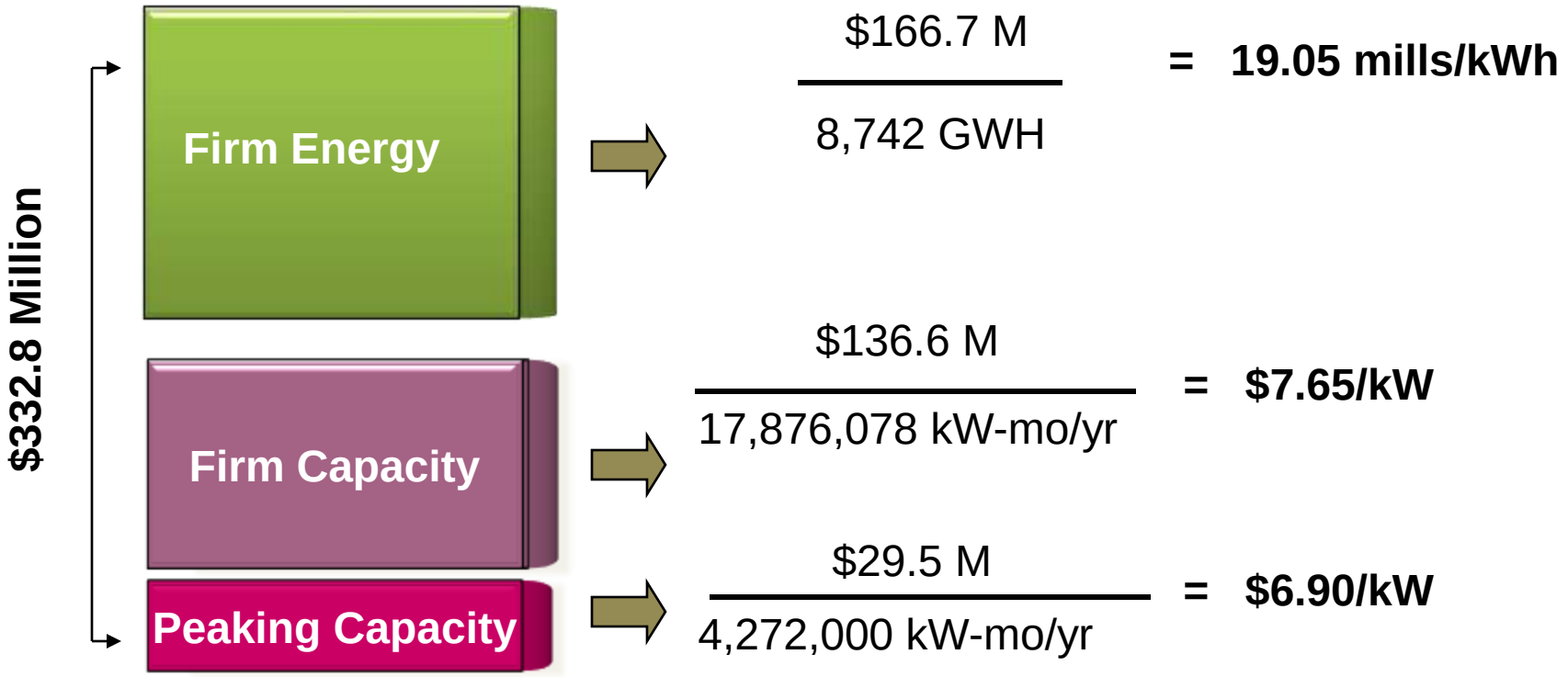
Eastern Division Rate Design

50/50 Capacity/Energy Split



Proposed ED Rate Design

50/50 Capacity/Energy Split



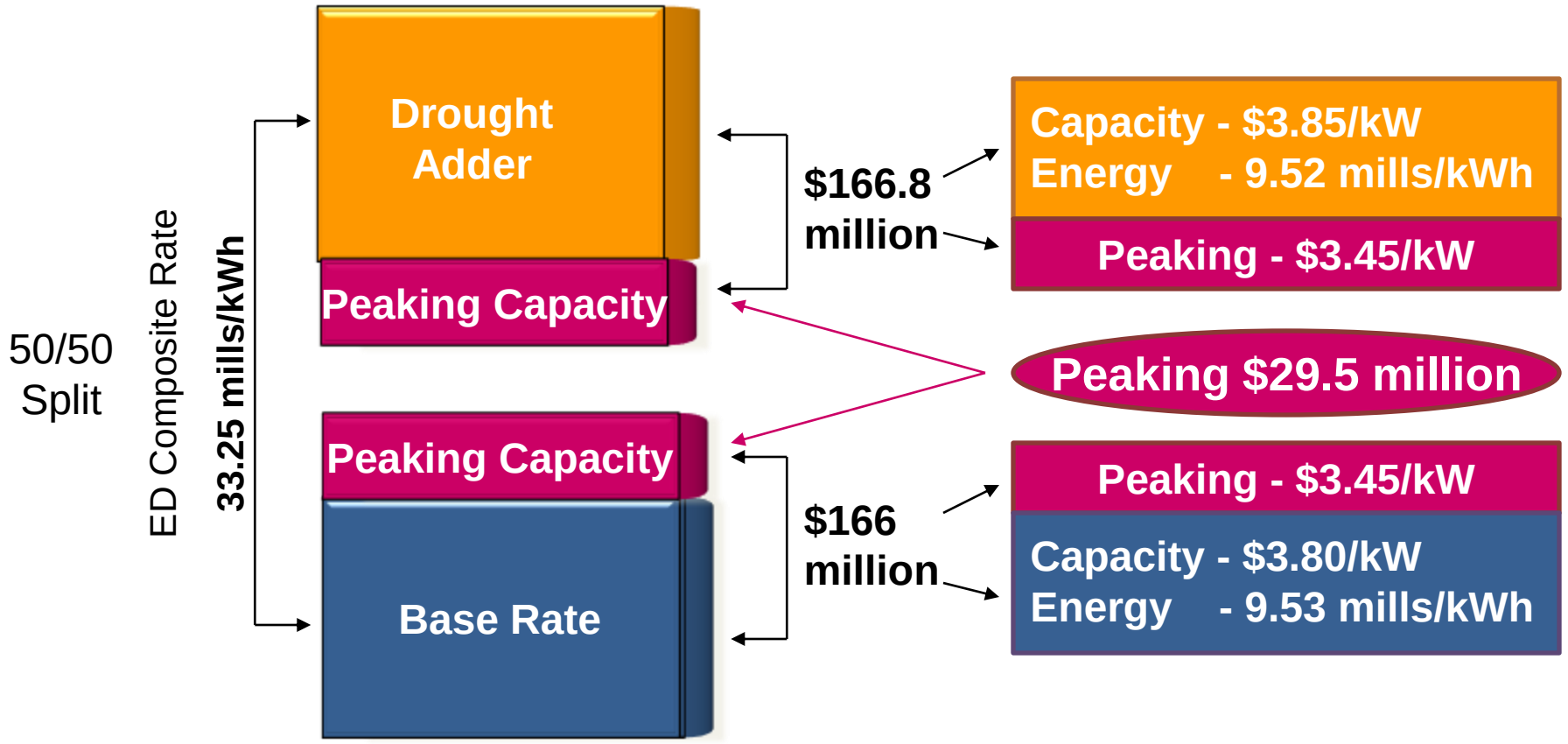
Note: Nickel rule for capacity rounding

P-SMBP Eastern Division

Peaking - $6.90/kW

Firm Capacity - $7.65/kW
Firm Energy - 19.05 mills/kWh

$332.8 Million
Revenue Requirement



ED Proposed Rates

Firm Power Service	Current Rates Effective February 1, 2009	Proposed Rates Effective January 1, 2010
P-SMBP-ED Firm + Firm Peaking Rev Req	$283.0 million	$320.2 million
P-SMBP-ED Composite Rate	29.34 mills/kWh	33.25 mills/kWh
Firm Capacity	$6.80 kW-month	$7.65 kW-month
Firm Energy	16.71 mills/kWh	19.05 mills/kWh
Firm Peaking Capacity	$6.20 kW-month	$6.90 kW-month
Firm Peaking Energy [1/]	16.71 mills/kWh	19.05 mills/kWh

[1/] Firm peaking energy is normally returned. This will be assessed in the event firm peaking energy is not returned.

Pick-Sloan
Proposed 2010 Rate Adjustment

	Composite Rate (mills/kWh)	Percent Increase	Pick-Sloan Firm Power Rev Req ($ millions)	Western Division Firm Rev Req ($ millions)	Eastern Division Firm Rev Req ($ millions)	Eastern Division Firm Plus Peaking Rev Req ($ millions)
Current Rates Effective February 1, 2009	29.63	21%	$317.9	$61.4	$256.5	$283
Proposed Rates Effective January 1, 2010	33.54	13%	$359.9	$69.2	$290.7	$320.2

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Loveland Area Projects (LAP) Rate Design and 2010 Rate Adjustment Proposal

Loveland Area Projects

- Fry-Ark and Pick-Sloan-WD were operationally and contractually integrated in 1989
- Pick-Sloan-WD is financially still a part of the Pick-Sloan Project
- A separate PRS is prepared annually for each project
  - Fry-Ark is completed by the Rocky Mountain Region
  - Pick-Sloan is completed by the Upper Great Plains Region with input from the Rocky Mountain Region for Pick-Sloan-WD

Loveland Area Projects

Revenue Requirements from both projects are combined to develop the LAP revenue requirement:

Fry-Ark	$ 15.3 Million
Pick-Sloan WD	$ 69.2 Million
Total LAP	$ 84.5 Million

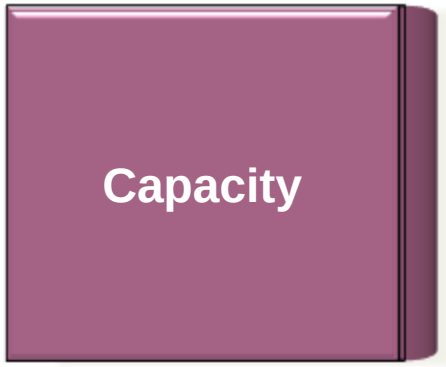
LAP Rate is a 50/50 design

- 50% of the revenue is recovered from the energy component, which is based on the annual contracted energy
- 50% is recovered from the capacity component, which is based on a monthly billing of the seasonal contract rate of delivery

LAP Rate Design

50/50 Energy/Capacity Split

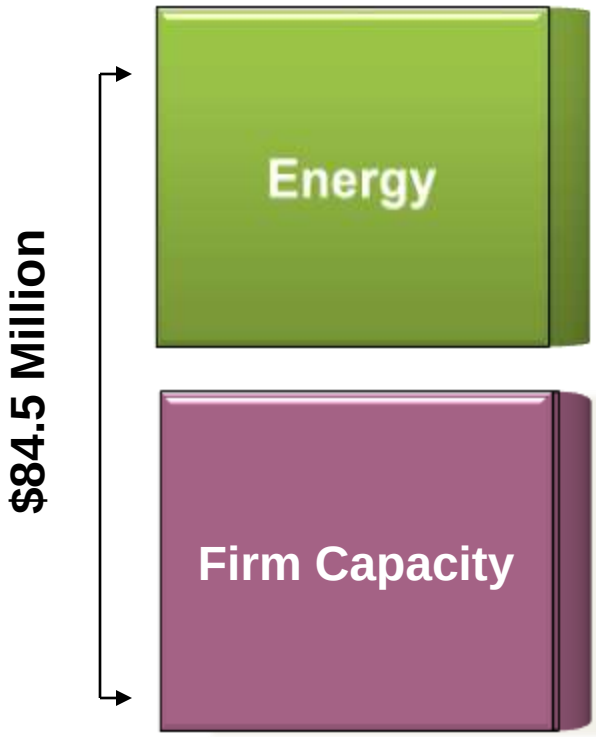
50% of total LAP Rev. Req.



50% of total LAP Rev. Req.

Proposed LAP Rate Design

50/50 Energy/Capacity Split



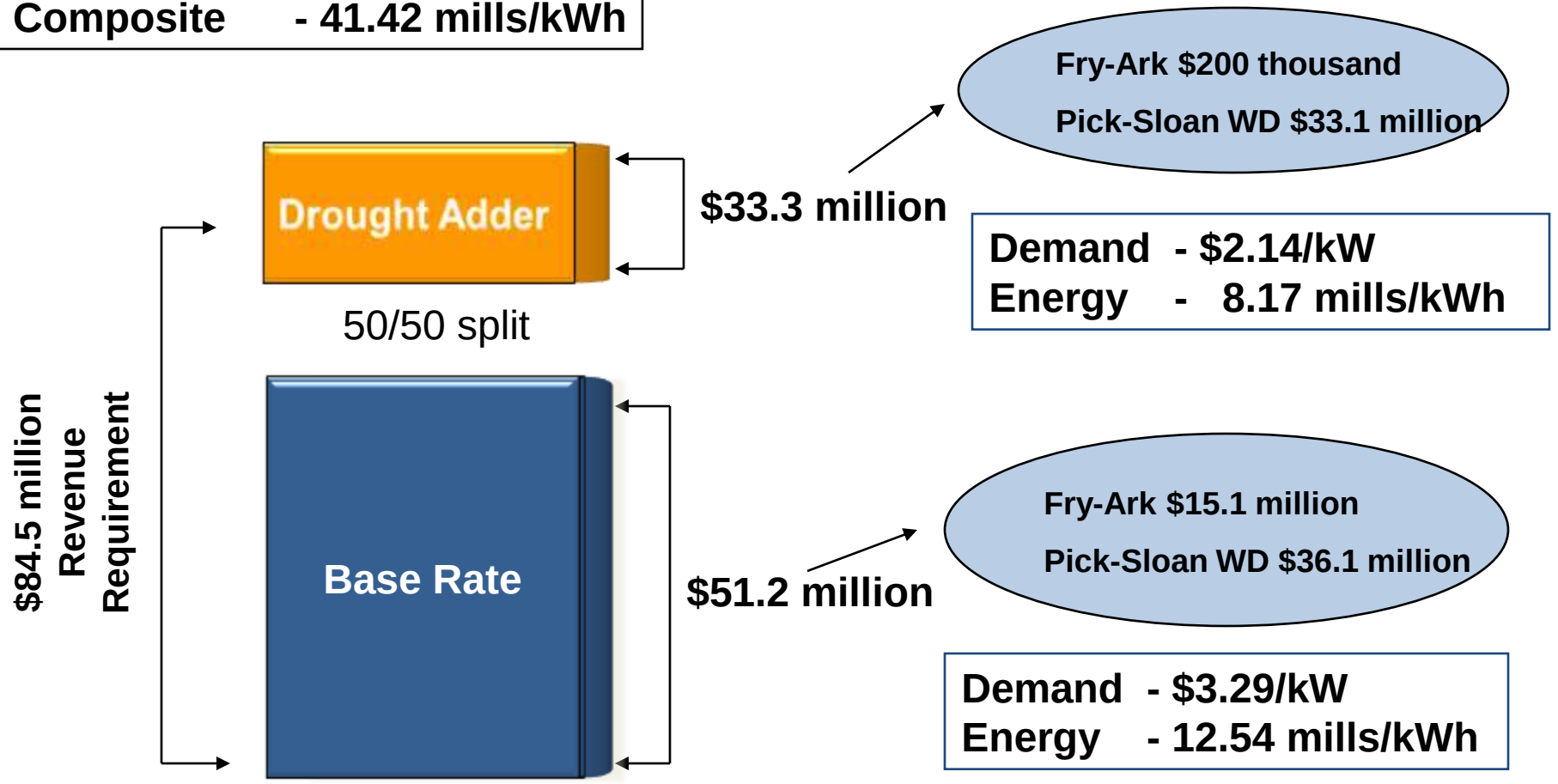
$$\frac{\$42.25\ M}{2{,}040\ GWh} = \textbf{20.71 mills/kWh}$$

$$\frac{\$42.25\ M}{(605{,}315+690{,}795)*6\ kW} = \textbf{\$5.43/kW}$$

Proposed LAP Rate Design
(Base and Adder)

Total Charges:

Firm Demand - $5.43/kW
Firm Energy - 20.71 mills/kWh
Composite - 41.42 mills/kWh



Proposed LAP Rates

Firm Electric Service	Current Rates Effective February 1, 2009	Proposed Rates Effective January 1, 2010	Increase	Percent Increase to LAP
Fry-Ark Rev Req	$14.5 M	$15.3 M	$783 k	1%
PS-WD Rev Req	$61.4 M	$69.2 M	$7.8 M	10%
Composite Rate	37.24 mills/kWh	41.42 mills/kWh	4.18 mills/kWh	11%
Firm Energy	18.62 mills/kWh	20.71 mills/kWh	2.09 mills/kWh	11%
Firm Capacity	$4.88/kW	$5.43/kW	$0.55/kW	11%

In Summary
(P-SMBP--ED and LAP)

- Combined Public Process
- Separate FRNs
- P-SMBP--ED
  - 13% increase
- LAP
  - 11% increase

Tentative Public Process Schedule

(P-SMBP-ED and LAP)

- Informal Meetings

  April 15th — Sioux Falls, SD
  April 16th — Northglenn, CO

- Public Process (90 Days)

- Federal Register Announcement

  Early July 2009

- Information Forums followed by Comment Forums

  August 18th — Northglenn, CO
  August 19th — Sioux Falls, SD

- Close of Comment Period

  Early October 2009 (90 Days after the FRN is Published)

- Proposed Implementation of New Rates

  January 1, 2010

LAP Rate Process
Other Information

Materials will be posted on Website:

http://www.wapa.gov/rm/ratesRM/2010/default.htm

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E-mail: scook@wapa.gov

Mailing Address:

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Rocky Mountain Region
PO Box 3700
Loveland, CO 80539

Pick-Sloan ED Rate Process
Other Information

Materials will be posted on Website:

http://www.wapa.gov/ugp/rates/2010firmrateadjust

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AREA POWER
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Discussion

Supplemental Slides

FY09 - FY10 **COE Only** Generation